AUDITED FINANCIAL STATEMENTS

FOR EACH

PARENT CROWN CORPORATION

FOR FISCAL YEARS ENDING

BEFORE JULY 31, 2000

LIST OF CROWN CORPORATIONS

Atlantic Pilotage Authority
Atomic Energy of Canada Limited

Bank of Canada
Business Development Bank of Canada

Canada Council
Canada Deposit Insurance Corporation
Canada Development Investment Corporation
    Canada Hibernia Holding Corporation
Canada Lands Company Limited
Canada Mortgage and Housing Corporation

Canada Pension Plan Investment Board
Canada Ports Corporation
Canada Post Corporation

Canadian Broadcasting Corporation
Canadian Commercial Corporation
Canadian Dairy Commission
Canadian Film Development Corporation

Canadian Museum of Civilization Corporation
Canadian Museum of Nature
Canadian Race Relations Foundation
Cape Breton Development Corporation

Defence Construction (1951) Limited

Enterprise Cape Breton Corporation
Export Development Corporation

Farm Credit Corporation
Federal Bridge Corporation Limited, The
Freshwater Fish Marketing Corporation

Great Lakes Pilotage Authority

LIST OF CROWN CORPORATIONS *(continued)*

International Development Research Centre

Laurentian Pilotage Authority

Marine Atlantic Inc.

National Arts Centre Corporation
National Capital Commission
National Gallery of Canada
National Museum of Science and Technology Corporation

Old Port of Montreal Corporation Inc.

Pacific Pilotage Authority
Petro-Canada Limited

Queens Quay West Land Corporation

Royal Canadian Mint

Standards Council of Canada

VIA Rail Canada Inc.

Atlantic
Pilotage
Authority

101-06239/

Management's Responsibility for Financial Reporting

The accompanying financial statements have been prepared by the Authority's management in accordance with generally accepted accounting principles consistently applied, using management's best estimates and judgements, where appropriate. Management is responsible for the integrity and objectivity of the information in the financial statements and annual report.

Management is also responsible for a system of internal control which is designed to provide reasonable assurance that assets are safeguarded and controlled, transactions comply with relevant authorities and accounting systems provide timely, accurate financial reports.

The Authority's management recognizes the responsibility of conducting its affairs in compliance with the *Pilotage Act* and regulations, the *Financial Administration Act* and regulations, and the bylaws of the Authority.

The Authority is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Authority exercises its responsibilities through its Audit Committee, which is composed of members who are not employees of the Authority. The Committee meets with management and the auditors to satisfy itself that responsibilities are properly discharged and to review the financial statements. The financial statements and annual report are reviewed and approved by the Authority on the recommendation of the Audit Committee.

The Auditor General of Canada conducts an independent audit of the transactions and financial statements of the Authority in accordance with generally accepted auditing standards, and expresses his opinion on the financial statements. He has full and free access to the Audit Committee of the Authority, and his report follows.

R.A. McGuinness
Chief Executive Officer

P. MacArthur
Treasurer

Halifax, Nova Scotia
February 18, 2000

AUDITOR GENERAL OF CANADA **VÉRIFICATEUR GÉNÉRAL DU CANADA**

Auditor's Report

To the Minister of Transport

I have audited the balance sheet of Atlantic Pilotage Authority as at December 31, 1999 and the statements of operations and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistant with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations, and the by-laws of the Authority.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
February 18, 2000

Atlantic Pilotage Authority
Balance Sheet
as at December 31, 1999

	1999	1998
Assets		
Current		
Cash and short term deposits (Note 3)	$ 1,686,780	$ 1,433,532
Accounts receivable, net (Note 3)	1,705,661	1,135,994
Prepaid expenses	23,278	23,344
	3,415,719	2,592,870
Investments (Note 3)	513,819	518,816
Segregated investments (Note 3)	843,017	592,035
Capital assets, net (Note 4)	806,898	785,057
	$ 5,579,453	$ 4,488,778
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 3)	$ 871,040	$ 679,662
Current portion of accrued employee termination benefits	14,221	144,015
	885,261	823,677
Long Term		
Accrued employee termination benefits	873,500	808,057
	1,758,761	1,631,734
Equity of Canada		
Contributed capital	2,304,546	2,304,546
Retained earnings	1,516,146	552,498
	3,820,692	2,857,044
	$ 5,579,453	$ 4,488,778

Commitments and contingencies (Note 6)

See accompanying notes

Approved by the Authority:

Chairman

Member

Atlantic Pilotage Authority
Statement of Operations and Retained Earnings
for the year ended December 31, 1999

	1999	1998
Income		
Pilotage charges	$ 10,789,793	$ 9,344,015
Other income	143,937	121,676
	10,933,730	9,465,691
Expenses		
Pilots' fees, salaries and benefits	5,009,577	4,517,058
Pilot boats, operating costs	2,596,229	2,409,282
Staff salaries and benefits	731,573	546,501
Transportation and travel	545,508	414,023
Professional and special services	316,984	278,329
Utilities, materials and supplies	222,187	125,018
Amortization	215,308	182,244
Training	141,798	143,687
Rentals	101,183	102,899
Communications	89,735	76,646
	9,970,082	8,795,687
Net profit for the year	963,648	670,004
Retained earnings (deficit), beginning of the year	552,498	(117,506)
Retained earnings, end of the year	$ 1,516,146	$ 552,498

See accompanying notes

Atlantic Pilotage Authority

Statement of Cash Flows

for the year ended December 31, 1999

	1999	1998
Cash flows from operating activities		
Cash receipts from customers	$ 10,220,192	$ 9,738,786
Cash paid to employees and suppliers	(9,505,208)	(8,442,357)
Other income received	143,937	121,676
Employee termination payments	(122,539)	(153,578)
Cash flows from operating activities	736,382	1,264,527
Cash flows from investing activities		
Purchase of investments and segregated investments	(1,549,335)	(1,459,356)
Redemption of investments and segregated investments	1,303,350	1,047,089
Additions to capital assets	(237,149)	(165,415)
Cash flows from investing activities	(483,134)	(577,682)
Cash and short term deposits, beginning of the year	1,433,532	746,687
Cash and short term deposits, end of the year	$ 1,686,780	$ 1,433,532

See accompanying notes

Atlantic Pilotage Authority
Notes to Financial Statements
December 31, 1999

1. Objectives and activities

The Atlantic Pilotage Authority (the "Authority") was established in 1972 pursuant to the *Pilotage Act*. The objects of the Authority are to establish, operate, maintain, and administer a safe and efficient pilotage service within designated Canadian waters. The *Act* provides that pilotage tariffs shall be fair, reasonable, and sufficient, together with any revenue from other sources, to permit the Authority to operate on a self-sustaining financial basis. Under the *Pilotage Act*, effective June 1998, no payment to the Authority may be made under an appropriation by Parliament to discharge an obligation or liability.

The Authority is a Crown corporation listed in Schedule III, Part I of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*.

2. Significant accounting policies

These financial statements have been prepared by management in accordance with generally accepted accounting principles:

(a) Cash and short term deposits

Cash and short term deposits consist of cash on hand and investments in money market instruments. Cash and short term deposits are recorded at cost.

(b) Investments and segregated investments

Investments are recorded at cost. Write down of investments to market value is recorded for other than temporary decline in their underlying value.

(c) Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded as they accrue to the employees. The current portion includes employee benefits where management is reasonably certain of termination within one year.

(d) Contributed capital

The values assigned to the capital assets obtained from Canada when the Authority was established and the net capital assets financed from parliamentary appropriations are recorded as contributed capital.

(e) Amortization

Amortization of capital assets is calculated on a straight-line basis and is based on the estimated useful life of the assets as follows:

Pilot boats	10 to 25 years
Furniture and equipment	5 to 10 years

(f) Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. Contributions with respect to current service are expensed in the current period. Contributions with respect to past service benefits are expensed when paid. The Authority is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(g) Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

3. Financial instruments

In accordance with the *Pilotage Act*, the Authority invests in Government of Canada Treasury bills and government guaranteed bonds.

	1999		1998	
	Carrying value	Yield (%)	Carrying value	Yield (%)
Cash	$ 1,005,062		$ 708,856	
Maturing within 3 months:				
Government of Canada Treasury Bills	681,718	3.90-4.25	724,676	3.79-4.25
Total cash and short term deposits	1,686,780		1,433,532	
Maturing within 3 years:				
Government of Canada Treasury Bills	212,000	5.03	---	
Government of Canada bonds	588,535	4.89-5.26	618,024	4.55-4.94
Provincial bonds	536,923	4.68-5.36	129,696	4.56-5.08
	1,337,458		747,720	
Maturing beyond 3 years:				
Government of Canada bonds	---		65,000	4.93
Provincial bonds	19,378	5.82	298,131	4.68-5.05
	19,378		363,131	
Total investments and segregated investments	1,356,836		1,110,851	
Total cash and investments	**$3,043,616**		**$ 2,544,383**	

Segregated investments represents one fund established for capital asset replacement and the funding of employee termination benefits. The level of investment in the fund is based upon the cash provided by operating activities in the previous year.

The market value of investments approximates both their carrying value and fair value.

Accounts receivable and accounts payable are incurred in the normal course of business. Both are due on demand. The carrying amounts of each financial instrument approximates fair values because of their short maturity. There are no concentrations of accounts receivable with any one customer.

4. Capital assets

	1999			1998		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land	$ 450	$ -	$ 450	$ 450	$ -	$ 450
Pilot boats	2,291,148	1,772,003	519,145	2,238,830	1,682,717	556,113
Furniture & equipment	789,811	502,508	287,303	604,980	376,486	228,494
	$ 3,081,409	$ 2,274,511	$ 806,898	$ 2,844,260	$ 2,059,203	$ 785,057

5. Related party transactions

The Authority receives services from government departments and these are provided without charge. These include pilot dispatching services by the Canadian Coast Guard, through its Vessel Traffic Service Centres in Nova Scotia, New Brunswick, and Newfoundland and Labrador. Pilot dispatch services are a significant aspect of the Authority's operations. The cost of these services is not recorded in the accounts of the Authority. As of December 31, 1999, the dispatch services were only provided for Newfoundland and Labrador, as the Authority had assumed the dispatching operations for all other areas throughout 1999.

The Authority is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the normal course of business.

6. Commitments and contingencies

(a) The Authority has entered into contractual commitments for construction of a pilot boat to service the Placentia Bay area. Construction of the boat will be completed in the fall of 2000 at which time the boat will be placed into service. Construction and design costs will be financed by cash and borrowings, and is not expected to exceed $2 million.

(b) The Authority has entered into contracts for pilot boat services, office rentals, and wharfage rentals requiring the following minimum annual payments:

2000	$ 555,973
2001	44,197
2002	8,661
2003 and beyond	1,554
	$ 610,385

(c) In connection with its operations, the Authority is the defendant or otherwise involved in pending claims and lawsuits. It is the opinion of management that these actions will not result in any material liabilities to the Authority. No provision has been recorded in the accounts in this regard.

7. Comparative figures

Certain 1998 figures have been re-classified to conform to the 1999 presentation.

Atomic
Energy
of Canada
Limited

Management Responsibility

THE CONSOLIDATED FINANCIAL STATEMENTS, ALL OTHER INFORMATION PRESENTED IN THIS ANNUAL REPORT AND THE FINANCIAL REPORTING PROCESS ARE THE RESPONSIBILITY OF THE MANAGEMENT AND THE BOARD OF DIRECTORS OF THE CORPORATION.

These statements have been prepared in accordance with generally accepted accounting principles and include estimates based on the experience and judgment of management. When alternate accounting methods exist, management has chosen those it deems most appropriate in the circumstances.

The corporation and its subsidiaries maintain books of account, financial and management control, and information systems, together with management practices designed to provide reasonable assurance that reliable and accurate financial information is available on a timely basis, that assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, and that operations are carried out effectively. These systems and practices are also designed to provide reasonable assurance that transactions are in accordance with Part X of the *Financial Administration Act* and its regulations, as well as the *Canada Business Corporations Act*, the articles, and the by-laws and policies of the corporation and its subsidiaries. The corporation has met all reporting requirements established by the *Financial Administration Act*, including submission of a corporate plan, an operating budget, a capital budget and this Annual Report.

The corporation's internal auditor has the responsibility for assessing the management systems and practices of the corporation and its subsidiaries. AECL's external auditors conduct an independent audit of the consolidated financial statements of the corporation and report on their audit to the Minister of Natural Resources.

The Board of Directors' Audit Committee, composed of directors who are not employees of the corporation or its subsidiaries, reviews and advises the Board on the consolidated financial statements, AECL's auditors' report thereto and the plans and reports related to special examinations, and oversees the activities of internal audit. The Audit Committee meets with management, the internal auditor and AECL's external auditors on a regular basis.

R. Allen Kilpatrick
President and Chief Executive Officer

Raymond E. Grisold
Vice-President Finance,
Treasurer and Chief Financial Officer

Auditors' Report

TO THE MINISTER OF NATURAL RESOURCES

We have audited the consolidated balance sheet of Atomic Energy of Canada Limited as at March 31, 2000 and the consolidated statements of operations, contributed capital, deficit and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied, after giving retroactive effect to the change in the method of accounting for decommissioning and site remediation as explained in note 10 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation and of its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act*, and the articles and by-laws of the Corporation and its wholly-owned subsidiaries.

We wish to draw your attention to Note 1 to the consolidated financial statements which indicates the Governor in Council has not approved the Corporation's five-year Corporate Plans since 1994-95, and the Corporation continues to work with the government to address budget and policy issues affecting the Corporation.

Ernst & Young LLP

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ernst & Young LLP
Chartered Accountants

Ottawa, Canada
May 12, 2000

Consolidated Balance Sheet

AS AT MARCH 31

(thousands of dollars)		2000		1999 Restated (Note 10)
ASSETS				
Current				
Cash, advances and short-term investments (Note 3)	$	119,222	$	101,007
Segregated cash (Notes 3 and 4)		14,015		32,722
Accounts receivable (Note 3)		72,554		92,798
Inventory		10,446		12,601
		216,237		239,128
Heavy water inventory (Note 5)		565,942		566,431
Capital assets (Note 6)		113,925		110,950
	$	896,104	$	916,509
LIABILITIES				
Current				
Accounts payable, advances and accrued liabilities	$	249,634	$	275,041
Current portion of restructuring and other provisions (Note 12)		24,635		20,500
Current portion of deferred decommissioning funding (Note 7)		14,015		23,300
Current portion of long-term debt (Note 8)		1,027		1,063
		289,311		319,904
Decommissioning and site remediation provision (Note 10)		377,500		374,700
Restructuring and other provisions (Note 12)		36,276		56,465
Deferred decommissioning funding (Note 7)		-		9,187
Deferred revenue		6,251		6,471
Deferred capital funding (Note 6)		57,249		64,504
Accrued employee termination benefits		49,755		47,544
Long-term debt (Note 8)		7,560		8,587
		823,902		887,362
COMMITMENTS AND CONTINGENCIES (Note13)				
SHAREHOLDER'S EQUITY				
Capital stock				
Authorized - 75,000 common shares				
Issued - 54,000 common shares		15,000		15,000
Contributed capital (Note 7)		534,820		535,015
Deficit		(477,618)		(520,868)
		72,202		29,147
	$	896,104	$	916,509

See accompanying notes to the consolidated financial statements

Approved by the Board:

Jean-Pierre Soublière, *Director*

R. Allen Kilpatrick, *Director*

Consolidated Statement of Operations

FOR THE YEAR ENDED MARCH 31

(thousands of dollars)	2000	1999 Restated (Note 10)
COMMERCIAL OPERATIONS		
Revenue	$ 551,855	$ 544,413
Expenses		
Cost of sales	456,110	466,356
Marketing and administration	21,596	24,059
Product development	22,424	19,798
	500,130	510,213
Operating profit from commercial operations	51,725	34,200
RESEARCH		
Funding		
Parliamentary appropriations (Note 9)	105,650	102,400
Cost recovery from third parties	24,865	41,315
Amortization of deferred capital funding	6,762	7,178
	137,277	150,893
Expenses	173,384	203,568
Net research expense	(36,107)	(52,675)
DECOMMISSIONING ACTIVITIES		
Funding		
Decommissioning funding (Note 7)	18,668	16,349
Asset sales	7	-
	18,675	16,349
Decommmissioning expense (Note 10)	21,475	21,349
Net decommissioning expense	(2,800)	(5,000)
OTHER PARLIAMENTARY APPROPRIATIONS (Note 9)	32,100	8,000
INTEREST INCOME AND OTHER (EXPENSE)	(1,668)	169
NET INCOME (LOSS)	$ 43,250	$ (15,306)

Amortization disclosure (Note 6)

See accompanying notes to the consolidated financial statements

Consolidated Statement of Contributed Capital

FOR THE YEAR ENDED MARCH 31

(thousands of dollars)	2000	1999
Balance at beginning of the year	$ 535,015	$ 557,508
Transfer to deferred decommissioning funding (Note 7)	(195)	(22,493)
BALANCE AT END OF THE YEAR	$ 534,820	$ 535,015

Consolidated Statement of Deficit

FOR THE YEAR ENDED MARCH 31

(thousands of dollars)	2000	1999 Restated (Note 10)
Balance at beginning of the year, as previously reported	$ (520,868)	$ (135,862)
Change in accounting policy (Note 10)	-	(369,700)
Balance at beginning of the year, as restated	(520,868)	(505,562)
Net income (loss)	43,250	(15,306)
BALANCE AT END OF THE YEAR	$ (477,618)	$ (520,868)

See accompanying notes to the consolidated financial statements

Consolidated Cash Flow Statement

FOR THE YEAR ENDED MARCH 31

(thousands of dollars)	2000	1999
OPERATING ACTIVITIES		
Cash receipts from customers	$ 539,224	$ 580,660
Cash receipts from parliamentary appropriations	136,900	120,800
Cash paid to suppliers and employees	(649,109)	(715,797)
Interest received (net)	7,858	11,085
Cash from (used in) operating activities	34,873	(3,252)
INVESTING ACTIVITIES		
Funds provided to segregated cash	(195)	(22,493)
Proceeds on disposal of capital assets	50	182
Acquisition of capital assets	(15,450)	(20,646)
Cash used in investing activities	(15,595)	(42,957)
FINANCING ACTIVITIES		
Reduction in long-term debt	(1,063)	(1,109)
Cash used in financing activities	(1,063)	(1,109)
CASH, ADVANCES AND SHORT-TERM INVESTMENTS:		
CHANGE	18,215	(47,318)
BALANCE AT BEGINNING OF THE YEAR	101,007	148,325
BALANCE AT END OF THE YEAR	$ 119,222	$ 101,007
INTEREST AND BANK CHARGES PAID DURING THE YEAR	$ 508	$ 530

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2000

1. THE CORPORATION

Atomic Energy of Canada Limited (AECL) was incorporated in 1952 under the provisions of the *Canada Corporations Act* (and continued in 1977 under the provisions of the *Canada Business Corporations Act*) pursuant to the authority and powers of the Minister of Natural Resources under the *Atomic Energy Control Act*.

The corporation is a Schedule III Part I Crown corporation under the *Financial Administration Act* (FAA) and an agent of Her Majesty the Queen in right of Canada. The corporation is exempt from income taxes in Canada. As required by the FAA the corporation submits annually its Corporate Plan, and operating and capital budgets to the government for its review and approval. The Treasury Board has approved an annual operating and capital budget for the corporation each year up to, and including, the 1999-2000 fiscal year.

The Governor in Council has not approved the corporation's five-year Corporate Plan in its entirety since 1994-1995 and, as a result, the related five-year Corporate Plan Summaries have not been tabled in Parliament as contemplated by the FAA. The government and the corporation continue to consider budget and policy issues affecting the corporation.

These financial statements include the accounts of the corporation's wholly-owned subsidiaries, AECL Technologies Inc., incorporated in the state of Delaware, U.S.A. in 1988, and AECL Technologies B.V., incorporated in the Netherlands in 1995.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Use of Estimates

The corporation's financial statements include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The more significant areas requiring the use of estimates are in relation to estimation of future contract costs; establishing restructuring and other provisions; and estimates of future decommissioning costs. The corporation reviews these estimates annually and does not expect the current assumptions to vary significantly in the near term.

b) Cash, Advances and Short-Term Investments and Segregated Cash

Short-term investments are carried at the lower of cost or market.

c) Foreign Currency Translation

Transactions denominated in a foreign currency are translated into Canadian dollars at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities outstanding at the balance sheet date are adjusted to reflect the exchange rate in effect at that date. Exchange gains and losses arising from the translation of foreign currencies are included in income.

d) Inventory

Heavy water is valued at the lower of average cost and net realizable value. Supplies are valued at cost.

e) Capital Assets

Capital assets are recorded at cost and this cost is amortized on a straight-line basis over the estimated useful life of the asset as follows:

- Machinery and equipment
  - 3 to 20 years
- Buildings, reactors and land improvements
  - 20 to 40 years

f) Decommissioning and Site Remediation Provision

The provision reflects the present value of the expected future decommissioning and site remediation costs. The provision is increased each year to reflect the time value of money, adjusted for changes in management estimates of future costs, and it is reduced by the actual expenditures incurred.

g) Long-term Contracts

Revenue and costs on long-term contracts are accounted for by the percentage of completion method based on expenses incurred and applied on a conservative basis to recognize the absence of certainty on these contracts. Full provision is made for estimated losses, if any, to completion of contracts in progress.

h) Parliamentary Appropriations

The Government of Canada, through parliamentary appropriations, funds certain operations of the corporation as described in Notes 7 and 9. Except as noted below, parliamentary appropriations are recorded separately in the consolidated statement of operations as used.

Parliamentary appropriations specified for the acquisition of capital assets are recorded as deferred capital funding on the consolidated balance sheet and are amortized on the same basis as the related capital assets.

Effective in 1996-1997, and pursuant to the 10-year arrangement for funding decommissioning activities, the corporation retains net proceeds from the sale or lease of certain heavy water and these proceeds are recorded in the consolidated statement of operations as deferred decommissioning funding as related expenditures are made.

i) Cost Recoveries from Third Parties

The corporation and the Canadian nuclear utilities (Ontario Power Generation, New Brunswick Power and Hydro Québec) have a common interest in the safe, efficient and economical use of power utilizing CANDU technology. Research programs aligned with these objectives are undertaken by the corporation and cost-shared with the utilities. Funding under these arrangements is included in cost recovery from third parties and is recognized as the related expenses are incurred.

j) Pension Plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. The corporation's contributions to the Plan are limited to contributions made by both the employees and the corporation on account of current service. These contributions represent the total pension obligations of the corporation and are charged to income on a current basis. The corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

k) Employee Termination Benefits

Employees are entitled to specific termination benefits as provided for under collective agreements and conditions of employment. The liability for these benefits is recognized as benefits accrue to the employees. The accumulated liability is based on an actuarial determination and reviewed on a periodic basis.

l) Workers' Compensation

In accordance with the *Government Employees' Compensation Act*, the corporation reimburses Human Resources Development Canada for current payments for workers' compensation claims and pensions billed by the provincial compensation boards. The benefit payments are recognized as an expense in the year paid to the provincial compensation boards.

m) Post-Retirement Benefits

The corporation provides supplemental life insurance benefits to its retired employees. A small group of retirees or spouses of deceased retirees are paid an allowance each year to cover their cost for medical benefits under a grandfathering arrangement. The cost of post-retirement benefits is recognized as an expense in the year paid.

3. FINANCIAL INSTRUMENTS

Unless otherwise specified, the fair value of the corporation's financial instruments approximates cost.

a) Cash, Advances and Short-term Investments and Segregated Cash

Bank deposits are maintained at levels required to meet daily operating needs. Any surplus deposits are invested in the short-term money market. The investing strategy is based on a conservative risk assessment. All instruments are rated R1 Low or higher by the Dominion Bond Rating Service and the portfolio is diversified by limiting investments in any one issuer and balancing the fund amongst Canadian federal and provincial government guaranteed, financial and commercial paper issuers. The instruments in the portfolio generally mature within 90 days.

b) Foreign Exchange Contracts

The corporation enters into foreign exchange forwards to reduce the risk associated with the purchase and sale of goods in foreign currencies. Forward contracts in effect as at March 31, 2000 amount to $2.5 million (1999 - $10.5 million). The majority of these contracts are for the purchase of French francs or British pounds at rates which do not vary significantly from market and which will be settled upon completion of the underlying transaction. The contracts expire within one year. All forwards are offset by contracts with third parties for payment in foreign currencies.

c) Accounts Receivable

Accounts receivable represent normal trade instruments. Two customers (1999 - three), each representing greater than 10 per cent of the total accounts receivable, comprise an aggregate 53 per cent (1999 - 65 per cent) of total accounts receivable. No substantial amounts are due in foreign currency. The corporation does not believe it is subject to any significant credit risk.

4. SEGREGATED CASH

Segregated cash is the unused portion of proceeds available for future decommissioning activities (Note 7).

5. HEAVY WATER INVENTORY

Heavy water inventory includes leased amounts with expiry occurring in 2000-2001, as well as 1,100 megagrams which have been provided to the Sudbury Neutrino Observatory Institute at no cost, the majority of which is scheduled for return in 2001-2002. In addition, the corporation has contractual commitments to sell heavy water in support of ongoing reactor projects.

6. CAPITAL ASSETS

(thousands of dollars)	2000		1999	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Commercial operations				
Land and improvements	$ 949	$ 245	$ 949	$ 245
Buildings	12,336	9,547	11,431	8,901
Machinery and equipment	13,969	9,769	12,597	8,443
	27,254	19,561	24,977	17,589
Research				
Land and improvements	22,197	17,403	22,173	17,050
Buildings	87,147	48,487	88,782	47,661
Reactors and equipment	218,732	174,437	220,563	172,364
	328,076	240,327	331,518	237,075
Construction in progress	18,483	-	9,119	-
	$ 373,813	$ 259,888	$ 365,614	$ 254,664
NET BOOK VALUE		$ 113,925		$ 110,950

Amortization of capital assets for the year ended March 31, 2000 amounted to $11.9 million (1999 - $17.1 million) in part offset by amortization of deferred capital funding of $6.8 million (1999 - $7.2 million).

7. CONTRIBUTED CAPITAL AND DEFERRED DECOMMISSIONING FUNDING

Included in contributed capital is approximately $342 million (1999 - $342 million) related to parliamentary appropriations received for the production of heavy water inventory. Up to and including 1995-1996, the corporation was required to repay the government, by way of a dividend, the net proceeds from the sale of government funded heavy water. A 1997 Decision of the Treasury Board directs the corporation to hold the proceeds received from the sale or lease of government funded heavy water in a segregated fund for use in decommissioning activities for the 10-year period following the Decision. Commencing in 1996-1997, as government funded heavy water is sold or leased, the net proceeds are transferred from contributed capital to deferred decommissioning funding which is used to fund ongoing decommissioning activities. The corporation continues to account for these transactions as a reversal of the originally established contributed capital. Subsequent to 2005-2006, unless renewed, the prior arrangement will apply whereby net proceeds would be repayable to the government and decommissioning activities would be funded through parliamentary appropriations.

The government is currently reviewing its overall environmental policy, which will include the decommissioning activities of the corporation's facilities and waste storage on its property. As part of this policy review, the government has proposed that the corporation and the government work jointly on a comprehensive management strategy. The corporation expects that this strategy will include determination of a financial framework to address funding of future decommissioning activities. Accordingly, the corporation expects that the government will continue to finance this obligation.

8. LONG-TERM DEBT

(thousands of dollars)	2000	1999
Loans from Government of Canada		
To finance leased heavy water and other assets, maturing through 2008 at interest rates varying from 4.00% to 8.84%	$ 8,587	$ 9,650
Current Portion	(1,027)	(1,063)
	$ 7,560	$ 8,587

Repayments of loan principal amounts required over succeeding years are as follows (millions of dollars): 2001 - $1.0; 2002 - $1.0; 2003 - $1.0; 2004 - $1.0; 2005 - $1.0; and subsequent to 2005 - $3.6.

9. PARLIAMENTARY APPROPRIATIONS AND OTHER GOVERNMENT FUNDING

The use of government funding by the corporation was as follows:

(thousands of dollars)	2000	1999
Research operating expense	$ 105,650	$ 102,400
Other		
Year 2000	24,500	8,000
Year 2000 frozen allotment	(8,000)	-
Termination costs	15,600	-
	32,100	8,000
	$ 137,750	$ 110,400

Parliamentary appropriations include $16.5 million as part of the government's program to assist Crown corporations and departments in defraying Year 2000 costs. The government considers this appropriation to be an advance which it intends to recover from reductions of appropriations over a three-year period beginning in 2001-2002. Also included is $15.6 million representing the release of a previously frozen allotment by the government to cover termination costs incurred during the Program Review implementation period.

10. CHANGE IN ACCOUNTING POLICY - DECOMMISSIONING AND SITE REMEDIATION PROVISION

a) Change in Accounting Policy

The corporation has changed its accounting policy to recognize the decommissioning and site remediation obligation retroactively with restatement of the 1998-1999 comparative figures. Previously such decommissioning and site remediation costs were expensed as incurred.

The effect of the change in accounting policy on the consolidated financial statements was as follows:

(thousands of dollars)	2000	1999
Increase in decommissioning expense	$ 2,800	$ 5,000
Reduction of net income	2,800	5,000
Recognition of decommissioning and site remediation provision	377,500	374,700
Increase in deficit	377,500	374,700

b) Decommissioning and Site Remediation Provision

When prototype reactors, heavy water plants, nuclear research, development and other facilities have no further commercial or research value to the corporation, they are retired and subsequently decommissioned in accordance with Canadian Nuclear Safety Commission regulations. Due to the variety of facilities, the decommissioning process may differ in each case. In some situations decommissioning activities are carried out in stages with intervals of several decades between them to allow radioactivity to decay before moving on to the next stage. Activities include dismantling, decontamination, residual waste storage and disposal.

The estimated future decommissioning and site remediation costs require that judgments be made about the regulatory environment, health and safety considerations, the desired end-state, technology to be employed and, in some cases, research and development for these activities that extend well into the future. The corporation has prepared a broad plan of activities to be carried out over the next 100 years. The plan follows a hierarchy of decommissioning activities to achieve: a controlled and controllable state for all redundant nuclear facilities that removes short-term risks; a sustainable, stable, safe state of the facilities under surveillance; and cost-optimized completion of actions to achieve a final end state that is an accepted completion of the decommissioning process as required by the regulator. The time-frame recognizes that the major nuclear facilities at Chalk River, including medical isotopes production, will require a managed and active site for a minimum of 100 years into the future. The provision has been conservatively discounted at a 5.75 per cent risk-free rate based on the government's 30 year bond rate.

The funding of actual expenditures of $18.7 million (1999 - $16.3 million) is described in Note 7.

11. RELATED PARTY TRANSACTIONS

In addition to the transactions disclosed in Note 9, the corporation had the following transactions with the Government of Canada:

(thousands of dollars)	2000	1999
Repayment of loans		
Principal	$ 1,063	$ 1,109
Interest	453	501
	$ 1,516	$ 1,610
Payments to the Public Service Superannuation Plan	$ 12,064	$ 11,073

In the normal course of business, the corporation also enters into various transactions with the Government of Canada, its agencies and other Crown corporations.

12. RESTRUCTURING

The corporation carries provisions for restructuring as well as other commercial activities. The charge to earnings for the estimated cost of undertaking actions pursuant to the government's 1996 Program Review was made in 1995-1996 and the remaining balance will be drawn down as the restructuring actions take place.

13. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the corporation, including those related to customers, suppliers, or other third parties, have been fully resolved.

14. COMPARATIVE FIGURES

Certain 1998-1999 amounts have been reclassified to conform with the current year's presentation.

Bank
# of Canada

Bank of Canada
Financial reporting responsibility

The accompanying financial statements of the Bank of Canada have been prepared by management in accordance with accounting principles generally accepted in Canada and these principles have been consistently applied. The integrity and objectivity of the data in these financial statements are management's responsibility. Management is responsible for ensuring that all information in the annual report is consistent with the financial statements.

In support of its responsibility, management maintains financial and management control systems and practices to provide reasonable assurance that the financial information is reliable, that the assets are safeguarded, and that the operations are carried out effectively. The Bank has an internal audit department, whose functions include reviewing internal controls and their application on an ongoing basis.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board. The Audit Committee reviews the Bank's annual financial statements and recommends their approval by the Board of Directors. The Audit Committee meets with management, the internal auditor, and the Bank's external auditors appointed by Order-in-Council.

These financial statements have been audited by the Bank's external auditors, Caron Bélanger Ernst & Young and Raymond Chabot Grant Thornton, and their report is presented herein.

G.G. Thiessen, Governor

L.T. Requard, Corporate Secretary

Ottawa, Canada

AUDITORS OF THE BANK OF CANADA
VÉRIFICATEURS DE LA BANQUE DU CANADA

C. P. 813, SUCCURSALE B
P.O. BOX 813, STATION B
OTTAWA, CANADA
K1P 5P9
CARON BÉLANGER ERNST & YOUNG
RAYMOND CHABOT GRANT THORNTON

AUDITORS' REPORT

To the Minister of Finance, registered shareholder of the Bank of Canada

We have audited the balance sheet of the Bank of Canada as at 31 December 1999 and the statement of revenue and expense for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 1999 and the results of its operations and cash flow for the year then ended in accordance with generally accepted accounting principles.

Caron Bélanger Ernst & Young
Chartered Accountants

Raymond Chabot Grant Thornton
Chartered Accountants

Ottawa, Canada
21 January 2000

Bank of Canada
Statement of revenue and expense

Year ended 31 December 1999

	1999	1998
	Millions of dollars	
REVENUE		
Revenue from investments	**1,910.8**	1,799.4
EXPENSE by function (notes 1 and 4)		
Monetary policy	**39.0**	40.7
Currency	**72.7**	57.5
Central banking services	**33.0**	30.7
	144.7	128.9
Retail debt services – expenses	**73.9**	65.5
Retail debt services – recoveries	**(73.9)**	(65.5)
Other revenue – net	**–**	(8.3)
	144.7	120.6
NET REVENUE PAID TO RECEIVER GENERAL FOR CANADA	**1,766.1**	1,678.8

(See accompanying notes to the financial statements.)

Bank of Canada
Balance sheet

As at 31 December 1999

ASSETS	1999	1998
	Millions of dollars	
Deposits in foreign currencies		
U.S. dollars	**605.6**	321.1
Other currencies	**4.4**	6.2
	610.0	327.3
Advances to members of the Canadian Payments Association	**560.7**	655.7
Investments (note 3)		
Treasury bills of Canada	**12,020.6**	12,115.5
Other securities issued or guaranteed by Canada maturing within three years	**7,515.1**	6,302.2
Other securities issued or guaranteed by Canada not maturing within three years	**12,975.7**	10,880.1
Other investments	**5,130.9**	4,455.7
	37,642.3	33,753.5
Bank premises (note 4)	**175.2**	188.0
Other assets		
Securities purchased under resale agreements	**3,669.6**	–
All other assets (note 5)	**405.5**	436.4
	4,075.1	436.4
	43,063.3	35,360.9

(See accompanying notes to the financial statements.)

LIABILITIES	**1999**	**1998**
	Millions of dollars	
Capital paid up (note 6)	**5.0**	5.0
Rest fund (note 7)	**25.0**	25.0
Bank notes in circulation	**40,142.6**	32,637.5
Deposits		
Government of Canada	**11.8**	10.6
Banks	**1,827.8**	578.7
Other members of the Canadian Payments Association	**119.5**	73.5
Other deposits	**428.5**	243.7
	2,387.6	906.5
Liabilities in foreign currencies		
Government of Canada	**454.5**	162.0
Other liabilities		
Securities sold under repurchase agreements	**–**	1,551.9
All other liabilities	**48.6**	73.0
	48.6	1,624.9
	43,063.3	35,360.9

Governor, G.G. Thiessen

Chief Accountant, F.J. Mahoney

Chairman, Audit Committee, W. Dubowec, FCA

Lead Director, H.H. MacKay, QC

(See accompanying notes to the financial statements.)

Bank of Canada
Notes to the financial statements

Year ended 31 December 1999

1. Bank functions

The Bank of Canada's primary responsibilities are set out in the Bank of Canada Act and can be grouped into four broad functions, which are described below. Net operating expenses in the *Statement of revenue and expense* are reported on the basis of these four corporate functions. Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

Monetary policy

The Bank's most important responsibility is monetary policy. Monetary policy is concerned with managing the rate of monetary expansion in a way that is consistent with preserving the value of money.

Currency

The Bank is responsible for issuing bank notes in Canada. This responsibility involves note design (including anti-counterfeiting features), as well as the printing and distribution of bank notes and their eventual replacement.

Central banking services

The Bank carries out a variety of activities that regulate and support Canada's principal systems for clearing and settling payments and other financial transactions. The Bank also provides a number of central banking services and advice to the federal government, financial institutions, and the general public. As fiscal agent, the Bank advises the federal government on matters relating to the public debt and is responsible for issuing market debt, maintaining bondholder records, and making payments on behalf of the government for interest and debt redemption.

Retail debt services

The Bank provides systems and operational support services to the Canada Investment and Savings agency (CI&S) in support of the federal government's retail debt program and is responsible for issuing debt, maintaining bondholder records, and making payments on behalf of the federal government for interest and debt redemption. The Bank recovers the cost of retail debt operations on a full-cost basis.

2. Significant accounting policies

The financial statements of the Bank are in accordance with generally accepted accounting principles and conform to the disclosure and accounting requirements of the Bank of Canada Act and the Bank's by-laws. As all material changes in financial position are evident from the financial statements, a separate statement of cash flow has not been prepared as it would not provide any additional useful information. The significant accounting policies of the Bank are:

a) Revenues and expenses

Revenues and expenses are accounted for on the accrual basis.

b) Translation of foreign currencies

Assets and liabilities in foreign currencies are translated to Canadian dollars at the rates of exchange prevailing at the year-end. Foreign currency assets held under short-term foreign currency swap arrangements with the Exchange Fund Account of the Government of Canada, as described in note 9(a), are converted to Canadian dollars at the contracted rates. Gains and losses from translation of, and transactions in, foreign currencies are included in revenue.

c) Advances

Advances to members of the Canadian Payments Association are liquidity loans which are fully collateralized and generally overnight in duration. The Bank charges interest on advances under the Large Value Transfer System (LVTS) at the Bank Rate. For advances under the Automated Clearing Settlement System, the Bank charges the Bank Rate plus a margin, which was 150 basis points at 31 December 1999 (Bank Rate prior to introduction of the LVTS on 4 February 1999).

d) Investments

Investments, consisting mainly of Government of Canada treasury bills and bonds, are recorded at cost and are adjusted for amortization of purchase discounts and premiums. The amortization, as well as gains and losses on disposition, is included in revenue.

e) Bank premises

Bank premises, consisting of land, buildings, computer hardware/software, and other equipment, are recorded at cost less accumulated depreciation. Computer software is capitalized only when its cost exceeds $2 million. Depreciation is calculated using the straight-line method and is applied over the estimated useful lives of the assets, as shown below.

Buildings	25 to 40 years
Computer hardware/software	3 to 7 years
Other equipment	5 to 15 years

f) Special purchase and resale agreements (SPRAs)

SPRAs are repo-type transactions in which the Bank of Canada offers to purchase Government of Canada securities from designated counterparties with an agreement to sell them back at a predetermined price the next business day. Within the operating band for the overnight interest rate, the Bank is prepared to enter into SPRAs at the policy target rate (i.e., the midpoint of the band) if overnight funds are generally trading above the indicated target level. SPRAs are transacted with primary dealers, a subgroup of government securities distributors that have reached a threshold level of activity in the Government of Canada debt markets. The balance sheet category *Securities purchased under resale agreements* represents the value receivable by the Bank upon resale of the securities. As such, this amount includes the purchase of treasury bills and bonds, the purchase of accrued interest on bonds, and the interest earned by the Bank over the duration of the SPRAs. The treasury bills and bonds purchased under resale agreements are not recorded as investment assets.

In the course of 1999, the Bank adopted the method of accounting for SPRAs described above. Previously, securities acquired under SPRAs were included in the Bank's investment holdings. There were no SPRAs outstanding at 31 December 1998. Thus, no restatements have been required for the comparative year.

g) Deposits

The liabilities within this category are Canadian dollar demand deposits. The Bank did not pay interest on deposits for *Banks* and *Other members of the Canadian Payments Association* prior to the introduction of the LVTS on 4 February 1999. For members of the Canadian Payments Association, the Bank pays interest on positive balances associated with the Large Value Transfer System (LVTS) at the lower end of the operating band for the overnight interest rate, and on positive balances related to the Automated Clearing Settlement System at the lower end of the operating band for the overnight interest rate less a margin, which was 150 basis points at 31 December 1999. On Special Deposit Accounts, which serve as collateral for LVTS participants, the Bank pays interest at the published overnight rate less a margin, which was 6.25 basis points at 31 December 1999.

h) Sale and repurchase agreements (SRAs)

SRAs are reverse repo-type transactions in which the Bank of Canada offers to sell Government of Canada securities to designated counterparties with an agreement to buy them back at a predetermined price the next business day. Within the operating band for the overnight interest rate, the Bank is prepared to enter into SRAs at the policy target rate (i.e., the midpoint of the band) if overnight funds are generally trading below the indicated target level. SRAs are transacted with primary dealers, a subgroup of government securities distributors that have reached a threshold level of activity in the Government of Canada debt markets.

The balance sheet category *Securities sold under repurchase agreements* represents the value payable by the Bank upon repurchase of the securities. As such, this amount includes the sale of treasury bills and bonds, the sale of accrued interest on bonds, and the interest owed by the Bank over the duration of the SRAs. The treasury bills and bonds sold under repurchase agreements continue to be recorded as investment assets.

In the course of 1999, the Bank adopted the method of accounting for SRAs described above. Previously, securities sold under SRAs were excluded from the Bank's investment holdings. SRA repurchase commitments, valued for settlement on 4 January 1999 and totalling $1,552.5 million, were outstanding at 31 December 1998. Thus, it has been necessary to make the following restatements for the comparative year. The Bank's assets under *Investments – Treasury bills of Canada* have been increased by the value of the securities sold under SRAs ($1,551.7 million). The Bank's liabilities in the new category *Other liabilities – Securities sold under repurchase agreements* have been increased by the value of the securities sold under SRAs and the one day of interest owed by the Bank for 1998 ($1,551.9 million). Finally, the category *All other liabilities* has been reduced by the one day of interest payable for 1998 ($0.2 million) that is now reflected in *Securities sold under repurchase agreements*.

i) Insurance

The Bank does not insure against direct risks of loss to the Bank, except for potential liabilities to third parties and where there are legal or contractual obligations to carry insurance. Any costs arising from these risks are recorded in the accounts at the time they can be reasonably estimated.

3. Investments

This category includes Government of Canada treasury bills and bonds as well as other investments, which are held under short-term foreign currency swap arrangements with the Exchange Fund Account of the Government of Canada as described in note 9(a).

The Bank typically holds its investments in treasury bills and bonds until maturity. The amortized book values of these investments approximate their par values. At the year-end, the average yield on the Bank's holdings of treasury bills, which average three months to maturity was 4.9 per cent (5.0 per cent in 1998), while the average yield for bonds maturing within three years was 6.5 per cent (6.6 per cent in 1998), and for those maturing in over three years was 6.6 per cent (6.9 per cent in 1998).

4. Bank premises

	1999			1998		
	Millions of dollars					
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land and buildings	168.0	68.5	99.5	168.0	65.1	102.9
Computer hardware/ software	62.0	28.8	33.2	61.6	24.6	37.0
Other equipment	137.1	94.6	42.5	136.5	88.4	48.1
	367.1	191.9	175.2	366.1	178.1	188.0

Total depreciation on Bank buildings, computer hardware and software, and other equipment was $28.3 million for 1999 ($23.7 million in 1998).

5. All other assets

This category includes accrued interest on investments of $325.6 million ($352.1 million in 1998).

6. Capital paid up

The authorized capital of the Bank is $5.0 million divided into 100,000 shares with a par value of $50 each. The shares are fully paid and, in accordance with the Bank of Canada Act, have been issued to the Minister of Finance, who is holding them on behalf of the Government of Canada.

7. Rest fund

The rest fund was established in accordance with the Bank of Canada Act and represents the general reserve of the Bank. The rest fund was accumulated out of net revenue until it reached the stipulated maximum amount of $25.0 million in 1955.

8. Pension plan

The Bank sponsors a defined-benefit pension plan for its employees, which is registered under the Pension Benefits Standards Act. The plan provides pension benefits based on length of service and rates of pay.

Actuarial valuations of the pension plan are made periodically by an independent actuary using the projected benefit method prorated on service. Market-related values are used to value pension plan assets. Based on the latest actuarial valuation as at 1 January 1999, the estimated present value of the accrued pension benefits as at 31 December 1999 was $478.2 million ($449.6 million in 1998), and the estimated market-related value of the pension plan assets was $600.5 million ($565.5 million in 1998).

Pension expense for 1999 was in a credit position of $4.6 million ($4.3 million in 1998). These amounts comprise the actuarially computed cost of pension benefits in respect of current year service and the amortization of past service costs and experience gains and losses. Amortization is calculated on a straight-line basis over the expected average remaining service life of the plan members, currently 12 years.

9. Commitments

a) Foreign currency contracts

In the ordinary course of business, the Bank enters into commitments involving the purchase and sale of foreign currencies. In particular, the Bank enters into short-term foreign currency swap arrangements with the Exchange Fund Account (EFA) of the Government of Canada as part of its cash-management operations within the Canadian banking system. These transactions, which are made with the concurrence of the Minister of Finance under a standing authority, involve the temporary acquisition by the Bank of foreign currency investments from the EFA. These investments are paid for in Canadian dollars at the prevailing exchange rate with a commitment to reverse the transaction at the same rate of exchange at a future date. The fair values of these investments are not materially different from their book values. At the year-end, the average yield for these investments was 5.5 per cent (6.0 per cent in 1998).

As well, the Bank of Canada is a participant in two foreign currency swap facilities with foreign central banks. The first, amounting to US$2 billion, is with the U.S. Federal Reserve. The second, amounting to Can$1 billion, is with the Banco de México. There were no drawings under either facility in 1999 or 1998.

All commitments outstanding at 31 December are settled in the subsequent year. A summary of these outstanding commitments follows.

		1999	**1998**
		Millions of dollars	
Foreign currency contracts	– purchases	**117.6**	95.6
	– sales	**5,299.9**	4,644.3

As at 31 December 1999, outstanding foreign currency contracts included sale commitments of $5,182.4 million ($4,548.7 million in 1998) under swap arrangements with the EFA.

b) Investment contracts

In the ordinary course of business, the Bank enters into commitments involving the purchase and sale of securities. All commitments outstanding at 31 December are settled in the subsequent year. A summary of these outstanding commitments follows.

		1999	**1998**
		Millions of dollars	
Investment contracts	– purchases	**–**	1,552.5
	– sales	**3,675.0**	–

As at 31 December 1999, there were no outstanding purchase investment contracts ($1,552.5 million at an interest rate of 4.75 per cent at the end of 1998 under Sale and Repurchase Agreements). Outstanding sale investment contracts of $3,675.0 million, at an interest rate of 4.75 per cent under Special Purchase and Resale Agreements, were settled by 13 January 2000 (nil at the end of 1998).

10. Year 2000

The year-2000 computer issue arose chiefly because many date-sensitive automated systems had not been designed to recognize correctly the year 2000. This represented a significant challenge for all organizations. If not addressed properly, the year-2000 issue could have had an impact on operations and financial reporting, ranging from minor errors to the failures of critical systems. The year 2000 arrived without incident for the Bank. However, as is the case generally, it is not yet possible to conclude definitively that all aspects of the year-2000 issue affecting the Bank, including those related to the efforts of clients, suppliers, or other third parties, have been fully resolved.

Business
Development
Bank
# of Canada

The financial statements of the Business Development Bank of Canada were prepared and presented by management in accordance with ge erally accepted accounting principles on a basis consistent with that of the preceding year. The information contained therein normally includ amounts requiring estimation which have been made based upon informed judgement as to the expected results of current transactions ar events. The financial information presented elsewhere in this annual report is consistent with the financial statements.

In discharging its responsibility for the integrity, fairness and quality of the financial statements and for the accounting systems from whi they are derived, management maintains a system of internal control designed to provide reasonable assurance that transactions are authorize assets are safeguarded and proper records are maintained. The system of internal control is augmented by audit and inspection staff who condu periodic reviews of different aspects of the Bank's operations. In addition, the Vice-President, Audit and Inspection and the independent audito have full and free access to the Audit Committee of the Board of Directors which is responsible for overseeing and reviewing managemen internal control and reporting responsibilities. The Board of Directors, through the Audit Committee which is comprised of Directors who are n employees of the Bank, is responsible for reviewing and approving the audited annual financial statements.

The Bank's independent auditors, KPMG LLP, Chartered Accountants and the Auditor General of Canada have audited the Bank's financ statements and their report indicates the scope of their audit and their opinion on the financial statements.

> Bernie Schroder
Acting President and
Chief Executive Officer

> Alan B. Marquis
Senior Vice-President, Finance
and Chief Financial Officer

Montreal, Canada
May 26, 2000

To the Minister of Industry:

We have audited the balance sheet of the Business Development Bank of Canada as at March 31, 2000 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Bank that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act* and the by-laws of the Bank.

> KPMG LLP
Chartered Accountants

Montreal, Canada
May 26, 2000

> L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
May 26, 2000

BALANCE SHEET

as at March 31 ($ in thousands)	2000	199
ASSETS		
Cash and short-term investments (Note 3)	$ 493,903	$ 458,18
Securities (Note 4)	83,752	87,88
	577,655	546,07
Loans, net of allowance for credit losses (Notes 5 and 6)	4,608,188	4,248,74
Venture capital investments (Note 7)	145,107	110,29
	4,753,295	4,359,04
Capital assets, net of accumulated amortization	39,879	39,24
Other assets (Note 8)	273,330	154,10
	313,209	193,34
TOTAL ASSETS	$ 5,644,159	$ 5,098,46
LIABILITIES AND SHAREHOLDER'S EQUITY		
Accounts payable and accrued liabilities	$ 45,045	$ 43,08
Accrued interest on borrowings	240,697	142,87
	285,742	185,95
Borrowings (Note 9)		
Short-term notes	1,965,781	2,235,68
Long-term notes	2,516,964	1,987,66
	4,482,745	4,223,35
Other liabilities (Note 10)	91,846	105,31
SHAREHOLDER'S EQUITY		
Share capital (Note 11)	533,400	453,40
Contributed Surplus (Note 18)	27,778	
Retained earnings	222,648	130,43
	783,826	583,83
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 5,644,159	$ 5,098,46

The accompanying Notes to Financial Statements are an integral part of this statement.

Approved by the Board:

- > Terry B. Grieve,
  Director
- > Bernie Schroder,
  Director

STATEMENT OF [illegible]

for the year ended March 31 ($ in thousands)	2000	1999
FINANCIAL SERVICES		
Loans		
Interest income	$ 453,461	$ 420,862
Interest expense (Note 12)	190,103	178,521
Net interest income	263,358	242,341
Provision for credit losses (Note 6)	94,000	61,019
Net interest income after provision for credit losses	169,358	181,322
Operating and administrative expenses (Note 13)	144,038	139,198
Income from Loans	25,320	42,124
Venture Capital		
Interest and dividends	539	2,293
Realized gains on investments	112,708	6,009
Other	1,053	825
Investment income	114,300	9,127
Write-down of investments	14,720	7,493
Net investment income	99,580	1,634
Operating and administrative expenses (Note 13)	19,541	5,758
Income (Loss) from Venture Capital	80,039	(4,124)
INCOME FROM FINANCIAL SERVICES	105,359	38,000
CONSULTING GROUP		
Revenue	19,396	17,823
Operating and administrative expenses (Note 13)	23,650	23,039
LOSS FROM CONSULTING GROUP	(4,254)	(5,216)
NET INCOME	101,105	32,784
RETAINED EARNINGS		
Beginning of year	130,432	103,658
Dividend on preferred shares	(8,889)	(6,010)
End of year	$ 222,648	$ 130,432

The accompanying Notes to Financial Statements are an integral part of this statement.

STATEMENT OF CASH FLOWS

for the year ended March 31 ($ in thousands)	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 101,105	$ 32,784
Adjustments to determine net cash flows:		
Provision for credit losses and write-down of venture capital investments	108,720	68,512
Amortization of capital assets	11,865	10,288
Change in interest receivable on loans	895	(3,594)
Change in accrued interest on borrowings	(13,668)	13,449
Translation adjustment on debt and securities	33,129	1,960
Net increase in unrealized gains and amounts receivable on derivative financial instruments	(122,239)	(55,142)
Net increase in unrealized losses and amounts payable on derivative financial instruments	101,445	37,061
Net change in other assets and other liabilities	1,551	(4,545)
NET CASH PROVIDED BY OPERATING ACTIVITIES	222,803	100,773
CASH FLOWS USED IN INVESTING ACTIVITIES		
Disbursements for loans and venture capital investments	(1,516,894)	(1,264,773)
Repayments of loans and venture capital investments	1,023,171	749,163
Net acquisition of capital assets	(12,500)	(23,078)
NET CASH USED IN INVESTING ACTIVITIES	(506,223)	(538,688)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of long-term notes	1,040,462	1,207,001
Repayment of long-term notes	(531,728)	(601,343
Net change in short-term notes	(281,402)	(222,031
Net change in securities	3,064	(30,519
Proceeds from issue of preferred shares	80,000	50,000
Contributed cash on transfer of Cultural Industries Development Fund	17,634	
Dividend on preferred shares	(8,889)	(6,010
NET CASH PROVIDED BY FINANCING ACTIVITIES	319,141	397,098
NET INCREASE (DECREASE) IN CASH AND SHORT-TERM INVESTMENTS	35,721	(40,817
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	458,182	498,999
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR	$ 493,903	$ 458,182
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Amount of interest paid in the year	$ 203,771	$ 165,072

The accompanying Notes to Financial Statements are an integral part of this statement.

1. ACT OF INCORPORATION, OBJECTIVES AND OPERATIONS OF THE CORPORATION

The Business Development Bank of Canada (BDC) is a Crown corporation which was established by an Act of Parliament on December 20, 1974 as the Federal Business Development Bank, and continued under its current name by an Act of Parliament on July 13, 1995. The Bank is wholly owned by the Government of Canada and is exempt from income taxes.

The objectives of the Bank are to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized businesses, by providing a wide range of financial and consulting services complementary to those of commercial financial institutions. The Bank offers to Canadian companies services tailored to meet the current needs of small and medium-sized businesses while earning an appropriate return on investment capital, which is used to further the Bank's activities.

To finance these objectives, the Bank issues debt instruments which are secured by the Government of Canada. The *Business Development Bank of Canada Act* also allows the issuance of hybrid capital instruments to provide the capital required for meeting the growing financial needs of Canadian small and medium-sized businesses. The Crown would not be liable for payment of amounts owing under such capital instruments.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Canada. As such, the preparation of financial statements requires that management make estimates and assumptions that affect reported amounts and disclosures in these statements. Actual results could differ from those estimates. Significant estimates include allowances for losses on loans and consideration of write-downs in venture capital investments. A variation in the circumstances or economic conditions under which these estimates are made could result in a significant change in these management judgements. The significant accounting policies used in the preparation of these financial statements are summarized below.

Securities

Debt securities are carried at amortized cost with premiums and discounts amortized over the period to maturity. Where there has been a decline in value of a security that is other than temporary, the carrying value of the security is appropriately reduced. Interest revenue, gains and losses on disposal and adjustments to record any impairment in value that is other than temporary are netted against interest expense.

Loans

Loans are stated at principal amounts including accrued interest receivable, net of allowance for credit losses. Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired.

Loans are classified as impaired when there is a deterioration in credit quality to the extent that the Bank no longer has reasonable assurance that the full amount of principal and interest will be collected. When a loan becomes impaired, recognition of interest income ceases and any previously accrued interest that is unpaid is reversed against interest income. Any interest received on impaired loans is applied to the carrying amount of the loan unless the loan is fully secured and does not require a specific allowance, in which case interest income is recognized on a cash basis.

For impaired loans measured on the basis of expected future cash flows, as explained under *Allowance for credit losses*, the increase in present value attributable to the passage of time is recorded as interest income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for credit losses

The allowance for credit losses is maintained at a level considered adequate to absorb the credit losses existing in the Bank's portfolio. It reflects management's best estimate of losses existing in the loan portfolio at the balance sheet date. The allowance is increased by an annual provision for credit losses which is charged against income and is reduced by write-offs, net of recoveries.

The allowance for credit losses is comprised of specific and general allowances.

Specific allowances are established on a loan-by-loan basis for impaired loans. The carrying amount of an impaired loan is reduced to its estimated realizable value by discounting the expected future cash flows at the effective interest rate inherent in the loan or, if cash flows cannot be reasonably determined, by using the estimated fair value of any underlying security, net of realization costs. Initial allowances as well as subsequent changes thereto are recorded through the provision for credit losses as an adjustment to the specific allowance.

The general allowance represents the best estimate of probable impairment attributable to the deterioration of credit quality in the remaining portfolio for which specific allowances cannot yet be determined. The amount is estimated based on historical loss experience and management's assessment of general economic and business conditions affecting the lending operations, recent loan loss experiences and trends in the credit quality of the loan portfolio.

Venture capital investments

Venture capital investments are recorded at cost. Investments in seed funds over which the Bank has joint control, are accounted for using the proportionate consolidation method. When there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss.

Interest and dividends are included in income when received whereas gains on investments are included when realized.

Capital assets and amortization

Capital assets are recorded at cost and amortized over their estimated useful lives, using the straight-line method as follows:

• Computer equipment and software	3-7 years
• Furniture and fixtures	5 years
• Leasehold improvements	over the term of the lease, maximum 15 years

Premiums, discounts and debt issue expenses

Premiums, discounts and expenses related to the issue of debt are amortized on a straight-line basis over the term of the obligations to which they pertain and are charged to interest expense.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year.

Derivative financial instruments

The Bank enters into derivative financial instruments to manage the interest rate, foreign exchange rate and equity market exposures arising from on-balance sheet positions. These financial instruments are used as hedges for the sole purpose of matching assets and liabilities. These derivatives are accounted for on an accrual basis with the related revenue or expense recognized over the life of the hedged position as an adjustment to interest expense.

Premiums paid or received with respect to derivative financial instruments are deferred and amortized to interest expense over the lives of the derivative contracts.

Pension plans and other benefits

The Bank maintains defined benefit pension plans for eligible employees. Periodic valuations are performed by independent actuaries to determine the present value of the accrued pension benefits using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, earnings escalation and retirement ages of employees.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The net pension expense or credits are comprised of the actuarially computed cost of pension benefits provided in respect of the current year's service, imputed interest on pension liabilities, expected income on plan assets based on an average of market-related values, and the amortization over the expected average remaining service life of the employees of experience gains or losses in respect of the plan, and any adjustments arising from changes to the plan or the plan assumptions.

The Bank also provides life insurance and health care benefits for eligible retirees as well as other employee and retiree benefits which are accrued based on actuarial valuations.

Future accounting changes

The Canadian Institute of Chartered Accountants has issued a new standard, Employee Future Benefits, for recording and disclosing pension and other future employee benefits which the Bank will fully adopt in 2001. The most significant change for the Bank will be the adoption of a current market rate of return rather than management's best estimate of the long-term discount rate for the evaluation of future employee obligations. The overall impact to the Bank will be dependent upon the interest rate environment at the time and upon the accounting option chosen for implementation.

3. CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments comprise bank account balances, net of cheques outstanding, and short-term bank deposits for terms less than 90 days.

4. SECURITIES

	Term to maturity					
	Within 1 year	1 to 3 years	Over 3 years		**2000 Total**	1999 Total
Canada						
Carrying value	$ 20,790	$ 23,533			**$ 44,323**	$ 62,090
Yield	6.74%	7.14%			**6.96%**	6.61%
Fair value	$ 20,997	$ 24,200			**$ 45,197**	$ 63,606
Provinces						
Carrying value						25,799
Yield						9.13%
Fair value						27,467
Financial Institutions						
Carrying value			$ 39,429		**39,429**	
Yield			6.32%		**6.32%**	
Fair value			$ 39,471		**39,471**	
Total						
Carrying value	$ 20,790	$ 23,533	$ 39,429		**$ 83,752**	$ 87,889
Yield	6.74%	7.14%	6.32%		**6.66%**	7.35%
Fair value	$ 20,997	$ 24,200	$ 39,471		**$ 84,668**	$ 91,073
Swap Contracts						
Notional amount	$ 21,230	$ 24,950	$ 40,000		**$ 86,180**	$ 88,222
Adjusted yield [1]	5.35%	5.27%	5.44%		**5.37%**	5.15%
Amounts denominated in foreign currencies included in the carrying value of securities						
US dollars				20,494		
GB pounds				2,000		
						$ 35,797
US dollars				36,964		
GB pounds				2,000		
					$ 58,093	

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(1) After adjusting for the effect of related derivatives (see note 15).

4. SECURITIES (continued)

All securities held as at March 31 were issued by Canadian entities at fixed rates. Yields are based upon carrying values and contractual interest rates adjusted for amortization of premiums and discounts. Term to maturity classifications are based upon the contractual maturity of the security. Fair value is based on market quotes when available and may not be realized on sale. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities. Where appropriate, the Bank has entered into cross-currency interest rate and interest rate swaps to adjust the interest rate and the foreign exchange risks associated with the above securities.

5. LOANS

The following table summarizes the repricing or maturity dates, whichever is earlier, and the effective interest rates of loans outstanding as at March 31. The effective interest rates are computed on a weighted average basis.

	2000		1999	
Performing – floating	**$ 2,736,660**	**9.76%**	$ 2,161,037	9.51%
Performing – fixed				
Under one year	**454,423**	**9.78%**	455,311	9.34%
1 to 2 years	**267,299**	**9.47%**	306,578	9.84%
2 to 3 years	**209,024**	**9.20%**	282,731	9.53%
3 to 4 years	**394,291**	**9.37%**	217,639	9.28%
4 to 5 years	**163,885**	**9.62%**	391,138	9.35%
Over 5 years	**442,275**	**8.89%**	435,919	9.01%
Performing	**4,667,857**		4,250,353	
Impaired	**235,135**		250,840	
Total loans	**4,902,992**		4,501,193	
Allowance for credit losses				
General	**(206.739)**		(161,970)	
Specific	**(88,065)**		(90,478)	
	(294,804)		(252,448)	
Loans, net of allowance for credit losses	**$ 4,608,188**		$ 4,248,745	

The concentrations of the total loans outstanding by province and territory as at March 31 are set out in the table below. The Bank believes it does not have any significant concentrations in any individual or related group of clients.

Geographic Distribution	2000		1999	
Newfoundland	**$ 164,000**	**3.3%**	$ 147,846	3.3%
Prince Edward Island	**43,840**	**0.9%**	38,614	0.9%
Nova Scotia	**105,974**	**2.1%**	100,631	2.2%
New Brunswick	**182,547**	**3.7%**	161,798	3.6%
Quebec	**2,024,962**	**41.3%**	1,794,570	39.9%
Ontario	**1,297,346**	**26.5%**	1,164,056	25.9%
Manitoba	**94,612**	**1.9%**	97,183	2.1%
Saskatchewan	**100,678**	**2.1%**	98,553	2.1%
Alberta	**272,127**	**5.6%**	256,352	5.7%
British Columbia	**562,403**	**11.5%**	578,947	12.9%
Yukon	**27,603**	**0.6%**	32,003	0.7%
Northwest Territories and Nunavut	**26,900**	**0.5%**	30,640	0.7%
Total loans outstanding	**$ 4,902,992**	**100.0%**	$ 4,501,193	100.0%

6. ALLOWANCE FOR CREDIT LOSSES

The following table summarizes the changes in the allowance for credit losses as at March 31.

	2000	1999
Balance at beginning of year	$ 252,448	$ 234,049
Write-offs	(50,704)	(41,013)
Interest income due to accretion	(2,918)	(4,613)
Recoveries	1,978	3,006
	200,804	191,429
Provision for credit losses	94,000	61,019
Balance at end of year	$ 294,804	$ 252,448

For 2000, the Bank determined that the application of its current methodology for determining the general allowance for credit losses did not fully consider general economic and business conditions, as well as trends in the credit quality of the loan portfolio. Consequently, the general allowance at March 31, 2000 includes an additional amount of $50,000 (1999 – nil) to reflect the limitations of the current methodology. The methodology will be refined in 2001 to address these issues.

7. VENTURE CAPITAL INVESTMENTS

The Bank maintains a portfolio of venture capital investments which is focused on companies having promising competitive positions in their respective marketplaces and strong growth potential. The concentrations of venture capital investments are listed below. The Bank believes it does not have any significant concentrations in any individual client.

Industry Sector	2000	1999
Biotechnology/Medical/Health	$ 48,140	$ 35,176
Computer	27,469	31,540
Venture Capital Seed Funds	20,231	12,928
Venture Capital Funds	2,104	2,340
Electronics	18,519	12,819
Communications	16,704	5,977
Industrial	4,663	2,841
Consumer-related	2,538	2,538
Other	4,739	4,139
Venture capital investments	$ 145,107	$ 110,298

Investments are generally held 4 to 7 years. Divestitures are made through listings of investee shares on public markets or the sale of the Bank's shares to other existing shareholders or to third parties. Investment yields vary from year to year due to the amount and timing of dividend and interest income received and divestitures made. Below is a summary of the venture capital portfolio by type of investment.

	2000	1999
Common shares	$ 79,265	$ 60,902
Preferred shares	51,213	38,082
Debentures	14,629	11,314
Venture capital investments	$ 145,107	$ 110,298

7. VENTURE CAPITAL INVESTMENTS (continued)

The Bank has invested in T^2C^2 Bio, T^2C^2 Info, Western Technology and Eastern Technology seed funds over which it has joint control. Below is a summary of the Bank's proportionate share of the assets, liabilities, revenues, expenses and cash flows of these funds.

Current assets	$ 3,220
Venture capital investments	13,454
Other assets	26
Current liabilities	23
Investment income	346
Operating and administrative expenses	4,291
Net loss	3,945
Cash flows from (used in):	
Operating activities	(3,471)
Investing activities	(13,955)
Financing activities	20,533

8. OTHER ASSETS

	2000	1999
Accrued interest and foreign currency adjustments on derivative financial instruments	$ 265,818	$ 143,579
Unamortized debt issue expenses on long-term notes	3,738	3,673
Other	3,774	6,851
	$ 273,330	$ 154,103

9. BORROWINGS

The Bank issues debt instruments in world capital markets to fund its loan portfolio. All foreign exchange risk is hedged through the use of derivatives. In addition, where appropriate, the Bank enters into interest rate, cross-currency interest rate and equity-linked swap contracts to hedge the related interest rate and equity market risks. The table below shows the outstanding notes as at March 31.

Maturity date	Effective rate	Currency	Nominal amount ('000)	2000	1999
Short-term notes					
2000	4.58% – 5.23%	US dollars	726,800		
		GB pounds	5,000		
		HK dollars	261,000		
		CDN dollars	951,024		
		Ecu	7,000		
		Euro	83,000		$ 2,235,687
2001	4.74% – 5.53%	US dollars	386,000		
		CDN dollars	1,422,750	$ 1,965,781	
Total short-term notes				$ 1,965,781	$ 2,235,687

9. **BORROWINGS (continued)**

Maturity date	Effective rate*	Currency	Principal amount ('000)	2000	1999
Long-term notes					
2000	4.44% – 7.10%	US dollars CDN dollars	121,000 105,245		$ 281,852
2001	4.72% – 7.43%	US dollars Yen CDN dollars	15,449 701,390 327,500	**$ 363,096**	230,149
2002	4.95% – 5.29% 5.01% 4.95% – 5.21%	US dollars Yen CDN dollars	143,500 2,000,000 171,715	**409,315**	389,832
2003	4.93% – 6.25%	CDN dollars		**168,500**	158,500
2004	4.95% – 5.37%	CDN dollars		**233,500**	233,500
2005	4.88% 5.37% 5.04% – 5.13%	US dollars Yen CDN dollars	10,000 500,000 75,000	**96,363**	50,000
2006	4.96% – 5.65%	CDN dollars		**190,400**	248,400
2007	4.92% – 5.05% 4.93% – 5.15%	Yen CDN dollars	1,700,000 153,195	**176,574**	177,486
2008	4.96% – 5.06%	CDN dollars		**92,000**	88,000
2009	5.01% – 5.10%	CDN dollars		**70,950**	64,950
2010	4.96% 4.92% – 5.20% 4.92% – 5.13%	US dollars Yen CDN dollars	15,000 11,500,000 38,000	**217,692**	
2011	4.64% – 5.16%	CDN dollars		**65,000**	65,000
2012	4.88% – 5.25% 4.99% – 5.14%	Yen CDN dollars	10,300,000 43,000	**184,652**	
2015	4.85% – 5.08%	Yen	18,100,000	**248,922**	
Total long-term notes				**$ 2,516,964**	$ 1,987,669
Current portion of long-term notes with maturity date longer than a year				**—**	$ 6,501

* *The effective rates on long-term notes are after giving effect to swap contracts when applicable. Information as to the repricing dates of the interest rate swap contracts is included in Note 15.*

9. BORROWINGS (continued)

The preceding table includes $1,876,964 in 2000 and $1,347,424 in 1999 of long-term notes payable which have been the subject of interest rate, cross-currency interest rate and equity-linked swap contracts and options with other financial institutions. These borrowings fund a portion of the Bank's floating interest rate loan portfolio.

The Bank has issued a number of structured notes for which interest and/or principal at maturity is linked to fluctuations in equity indices, currency rates, swap rates and other market references. Other notes may be called prior to maturity, or have their maturity extended, upon exercise of call or extension options by the Bank or the noteholders. The type of notes included in the above table are as follows:

	2000	1999
Interest-bearing notes	$ 822,110	$ 1,013,041
Notes linked to equity indices	325,353	289,557
Notes linked to currency rates	408,453	—
Notes linked to swap rates	195,852	85,680
Notes callable prior to maturity	355,565	315,195
Notes extendible beyond maturity	163,000	153,000
Other structured notes	246,631	131,196
	$ 2,516,964	$ 1,987,669

As at March 31, 2000 the payment requirements and maturities of long-term notes are as follows:

2001	$ 363,096
2002	409,315
2003	168,500
2004	233,500
2005	96,363
2006 and over	1,246,190
	$ 2,516,964

10. OTHER LIABILITIES

	2000	1999
Deferred income	$ 2,362	$ 3,170
Accrued pension and other benefits	50,375	54,791
Unamortized premiums, accrued interest and foreign currency adjustments on derivative financial instruments	15,913	25,954
Other	23,196	21,399
	$ 91,846	$ 105,314

11. SHARE CAPITAL AND STATUTORY LIMITATIONS

Share Capital

Authorized:

(a) An unlimited number of preferred shares without par value, non-voting, issuable in series;
(b) An unlimited number of common shares, having a par value of $100 (one hundred dollars) each.

Outstanding

	2000			1999		
	Number of shares	**Amount**	**Dividend rate**	Number of shares	Amount	Dividend rate
Preferred shares						
Class A – Series 1	**500,000**	**$ 50,000**	**5.595%**	500,000	$ 50,000	6.805%
– Series 2	**500,000**	**50,000**	**5.215%**	500,000	50,000	5.215%
– Series 3	**500,000**	**50,000**	**5.515%**	500,000	50,000	5.515%
– Series 4	**400,000**	**40,000**	**6.270%**			
– Series 5	**400,000**	**40,000**	**6.270%**			
		230,000			150,000	
Common shares	**3,034,000**	**303,400**		3,034,000	303,400	
Total Outstanding Share Capital		**$ 533,400**			$ 453,400	

Class A Preferred Shares have a fixed, preferential and cumulative dividend and are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully-paid common shares on the basis of one common share for each Class A Preferred Share. All dividends accumulated or declared and unpaid as at the date of exchange are payable by the Bank on a pro rata basis, as if such dividends had accrued from day-to-day. The dividend rates on Class A Preferred shares are for periods ranging from two to five years and are adjusted at the beginning of the subsequent period to equal the consolidated revenue fund lending rate published by the Minister of Finance, plus a specified premium ranging from 0.250% to 0.375%.

During the year ended March 31, 2000, the Bank issued 400,000 Class A – Series 4 and 400,000 Class A – Series 5 preferred shares for cash consideration of $80,000.

Statutory Limitations

The aggregate of borrowings and contingent liabilities of the Bank in the form of guarantees given by it may not exceed twelve times the equity of the Bank.

Moreover, the paid-in capital of the Bank, the contributed surplus and any proceeds that have been prescribed as equity, must not at any time exceed $1.5 billion.

12. INTEREST EXPENSE

	2000	1999
Interest on borrowings	**$ 217,704**	$ 207,499
Security and short-term investment income	**(27,601)**	(28,978)
	$ 190,103	$ 178,521

13. OPERATING AND ADMINISTRATIVE EXPENSES

	2000			1999		
	Financial Services		Consulting Group	Financial Services		Consulting Group
	Loans	Venture Capital		Loans	Venture Capital	
Salaries and staff benefits	$ 68,811	$ 11,438	$ 16,111	$ 66,354	$ 3,386	$ 15,582
Premises and equipment	23,723	1,015	2,496	22,194	920	2,433
Other expenses	51,504	7,088	5,043	50,650	1,452	5,024
	$ 144,038	$ 19,541	$ 23,650	$ 139,198	$ 5,758	$ 23,039

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out below represent the fair values of on- and off-balance sheet financial instruments held or issued by the Bank using the valuation methods and assumptions referred to below. The estimated fair value amounts represent approximate amounts at which the instruments could be exchanged between willing parties, however many of the financial instruments lack an available trading market. Therefore, fair values are estimated using present value and other valuation techniques which are extensively affected by the assumptions used. As such, the derived fair value estimates should not be interpreted as realizable values in an immediate settlement of the instruments.

The carrying values are not adjusted to reflect increases or decreases in fair values resulting from fluctuations in interest rates, as it is the Bank's intention to realize the value of these financial instruments over time by holding them to maturity.

	2000			1999		
Balance Sheet	**Carrying value**	**Fair value**	**Fair value over (under) carrying value**	Carrying value	Fair value	Fair value over (under) carrying value
Assets						
Cash and short-term investments	$ 493,903	$ 493,903	$	$ 458,182	$ 458,182	$
Securities (Note 4)	83,752	84,668	916	87,889	91,073	3,184
Loans net of allowance for credit losses	4,608,188	4,572,992	(35,196)	4,248,745	4,247,282	(1,463)
Venture capital investments	145,107	278,743	133,636	110,298	158,842	48,544
Other assets	3,774	3,774	—	6,851	6,851	—
	$ 5,334,724	$ 5,434,080	$ 99,356	$ 4,911,965	$ 4,962,230	$ 50,265
Liabilities						
Accounts payable and accrued liabilities	$ 45,045	$ 45,045	$	$ 43,080	$ 43,080	$
Accrued interest on borrowings	240,697	240,697		142,879	142,879	
Short-term notes	1,965,781	1,965,781		2,235,687	2,235,687	
Long-term notes	2,516,964	2,615,440	98,476	1,987,669	2,118,062	130,393
	$ 4,768,487	$ 4,866,963	$ 98,476	$ 4,409,315	$ 4,539,708	$ 130,393
			$ 880			$ (80,128)
Derivative financial instruments (Note 15)	$ 187,098	$ 184,619	$ (2,479)	$ 41,547	$ 117,369	$ 75,822
Total			$ (1,599)			$ (4,306)

14. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair values are based on a range of valuation methods and assumptions which are as follows:

Financial instruments valued at carrying value – The estimated fair value of the following assets and liabilities is assumed to approximate carrying value as the items are short-term in nature:

- Cash and short-term investments
- Other assets
- Accounts payable and accrued liabilities
- Accrued interest on borrowings
- Short-term notes

Securities – The fair value of securities is provided in Note 4 to the financial statements.

Loans – For performing variable rate loans, estimated fair value is assumed to equal carrying value. For performing fixed rate loans, estimated fair value is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans at March 31 to expected maturity or repricing. For impaired loans, fair value is equal to carrying value in accordance with the valuation methods described in Note 2 under *Allowance for credit losses*.

Venture capital investments – For venture capital investments made during the current year, estimated fair value is assumed to equal the carrying value. For investments in publicly traded companies, fair value is the quoted share price at March 31. The fair value of other investments is estimated using established earnings multiples.

Long-term notes – The fair value of long-term notes is based on quoted market prices for similar issues, or current rates offered to the Bank for notes of the same remaining maturity.

Derivative financial instruments – The fair value of derivative financial instruments is provided in Note 15 to the financial statements.

15. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank enters into derivative financial instruments as hedging transactions for the sole purpose of matching its assets and liabilities and hedging market risk exposure. These transactions are designed to reduce the Bank's exposure to mismatches in revenue and expenses resulting from fluctuations in interest rates and foreign exchange.

Depending on the circumstances, these transactions may include the following:

Swaps

Swaps involve the exchange of cash flow obligations on a specific notional amount, for a predetermined period. *Interest rate swaps* involve exchange of fixed and floating interest payments. *Currency swaps* involve exchange of currencies at specific prices and dates. *Cross-currency interest rate swaps* involve the exchange of both interest and notional amounts in two different currencies. For *equity-linked swaps*, one of the payments exchanged represents the variation in the equity index over time, and the other is based on agreed fixed or floating rates.

Forwards and Futures

Forwards and futures are contractual agreements to either buy or sell currencies or financial instruments at specified prices and dates in the future.

15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Options

Options are agreements in which the writer (or the seller) of the option grants the buyer the right, but not the obligation, to buy or sell a specific amount of a currency, commodity or financial instrument at a price agreed upon when the options are arranged. The writer receives a premium for selling this instrument.

The following table provides the fair value of the Bank's derivatives portfolio as at March 31 as presented by unrealized gains or losses.

	2000			1999		
	Positive	**Negative**	**Net Amount**	Positive	Negative	Net Amount
Derivative financial instruments						
Interest rate swap contracts	**$ 6,896**	**$ 20,319**	**$ (13,423)**	$ 42,397	$ 10,026	$ 32,371
Equity-linked swap contracts	**131,350**	**1,776**	**129,574**	38,296	15,801	22,495
Forward rate agreements	**—**	**—**	**—**	225	—	225
Cross-currency interest rate swap contracts	**100,162**	**25,241**	**74,921**	74,627	1,601	73,026
Foreign exchange contracts						
Currency forward contracts	**985**	**2,976**	**(1,991)**	2,849	13,597	(10,748)
Option contracts	**—**	**4,462**	**(4,462)**	—	—	—
Total fair value	**$ 239,393**	**$ 54,774**	**$ 184,619**	$ 158,394	$ 41,025	$ 117,369
Less impact of master netting agreements	**42,858**	**42,858**	**—**	17,643	17,643	—
Total	**$ 196,535**	**$ 11,916**	**$ 184,619**	$ 140,751	$ 23,382	$ 117,369

The fair value of derivatives is determined using various methodologies including quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, and net present value analysis or other pricing methodologies as appropriate.

Credit risk

The notional amounts of financial instruments held by the Bank are not indicative of the credit or market risk exposure associated with the contracts. The risk of loss is related only to the possibility that a counterparty to a transaction does not perform as agreed. In the event of default by a counterparty, the risk to the Bank in these transactions would be limited to the prevailing currency and/or interest rate differentials as represented by the positive fair values of transactions that are in an unrealized gain position. The Bank limits its exposure to this type of risk by dealing only with financial institutions having credit ratings in accordance with the Department of Finance guidelines, and believes it does not have any significant concentrations in any individual financial institution. The Bank continually monitors its position and the credit ratings of its counterparties and seeks to limit its credit exposure by entering into master netting agreements with counterparties. The credit risk associated with contracts in a favourable position is eliminated by a master netting agreement only to the extent that contracts in an unfavourable position with the same counterparty will not be settled before the favourable contracts. The Bank's overall exposure to credit risk on derivative instruments can change substantially within a short period since it is affected by each transaction subject to the arrangement.

Counterparty Credit Risk Exposure	**Counterparty Ratings**			
	AAA	**AA- to AA+**	**A to A+**	**Total**
Gross positive replacement cost	**$ 38,284**	**$ 192,318**	**$ 8,791**	**$ 239,393**
Impact of master netting agreements	**(4,466)**	**(38,392)**	**—**	**(42,858)**
Replacement cost (after master netting agreements)	**$ 33,818**	**$ 153,926**	**$ 8,791**	**$ 196,535**
Replacement cost (after master netting agreements) – 1999	$ 71,742	$ 38,800	$ 30,209	$ 140,751
Number of counterparties				
March 31, 2000	**2**	**11**	**2**	
March 31, 1999	2	9	3	

15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table summarizes the notional amount by terms to maturity or repricing dates and replacement costs on derivative financial instruments:

	Term to maturity or repricing								2000		1999	
	Within 1 year	%	1 to 3 years	%	3 to 5 years	%	Over 5 years	%	**Notional amount**	**Replacement cost**	Notional amount	Replacement cost
Interest rate contracts												
$CDN payable – fixed	$ 269,245	5.16	$163,500	5.41	$ 10,000	5.45	$		**$ 442,745**	**$ 2,107**	$ 456,099	$ 248
$CDN receivable – fixed	164,696	5.46	135,000	4.84	26,000	6.16	289,950	5.97	**615,646**	**1,617**	592,094	38,544
$US receivable – fixed	4,873	6.88	—		—		—		**4,873**	**22**	11,374	353
Basis swaps	—		105,000	n.a.	—		—		**105,000**	**2,044**	105,000	265
Equity-linked swap contracts	17,517	n.a.	45,859	n.a.	72,500	n.a.	237,698	n.a.	**373,574**	**131,350**	411,554	38,296
Other contracts	44,500	n.a.	—		14,500	n.a.	22,195	n.a.	**81,195**	**1,106**	57,486	2,987
	500,831		449,359		123,000		549,843		**1,623,033**	**138,246**	1,633,607	80,693
Forward rate agreements	—		—		—		—		**—**	**—**	787,000	225
Cross-currency interest rate swap contracts	69,497	n.a.	247,464	n.a.	50,680	n.a.	832,408	n.a.	**1,200,049**	**100,162**	409,022	74,627
Total interest rate contracts	570,328		696,823		173,680		1,382,251		**2,823,082**	**238,408**	2,829,629	155,545
Foreign exchange contracts												
Currency forward contracts	614,536	n.a.	—		—		—		**614,536**	**985**	1,508,336	2,849
Total foreign exchange contracts	614,536								**614,536**	**985**	1,508,336	2,849
Option contracts	3,415	n.a.	—		—		—		**3,415**	**—**	—	—
Total	$1,188,279		$696,823		$173,680		$1,382,251		**$3,441,033**	**$239,393**	$4,337,965	$158,394
Less impact of master netting agreements	—		—		—		—		**—**	**42,858**	—	17,643
Total	$1,188,279		$696,823		$173,680		$1,382,251		**$3,441,033**	**$196,535**	$4,337,965	$140,751

n.a. – not applicable or weighted rates are not significant.

The notional amount represents the amount at which a rate or price is applied in order to calculate the exchange of cash flows.

Replacement cost represents the cost of replacing, at current market rates, all contracts in an unrealized gain position.

The rates represent the weighted average interest rates that the Bank has contracted to pay or to receive up to maturity or repricing. The floating side for almost all of the Canadian dollar swap contracts is based on one- or three-month Canadian Bankers' Acceptance. All amounts in U.S. dollars are converted into Canadian dollar equivalent.

16. CONTINGENT LIABILITIES AND COMMITMENTS

As at March 31, 2000:

a) various legal proceedings arising from the normal course of business are pending against the Bank. Management considers that the aggregate liability resulting from these proceedings will not be material.

b) the undisbursed amounts on loans authorized total $535,329. These loan commitments are for an average period of three months ($64,040 in fixed, $471,289 in floating). The effective interest rates on these loan commitments vary from 6.5% to 17.0%. The undisbursed amounts on venture capital investments authorized total $30,720.

16. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

c) the future minimum lease commitments under operating leases related to the rental of Bank premises are as follows:

2001	$ **14,900**
2002	**14,100**
2003	**13,500**
2004	**13,200**
2005	**13,100**
2006 – 2021	**122,600**
	$ **191,400**

17. PENSION PLANS AND OTHER BENEFITS

The Bank maintains defined benefit pension plans for eligible employees. The following are the details of the plans based on the latest actuarial valuations prepared as at December 31:

Status of Pension Plans	**1999**		1998	
	Registered	**Supplemental**	Registered	Supplemental
Plan assets at market-related value	**$ 412,352**	**$ 4,084**	$ 377,536	$ 3,944
Projected benefit obligation	**300,091**	**19,910**	285,085	22,591
Funding excess (deficit)	**$ 112,261**	**$ (15,826)**	$ 92,451	$ (18,647)
Pension expense (credit)	**$ (12,513)**	**$ 3,926**	$ (6,775)	$ 2,314

The pension expense (credit) is included in Salaries and Benefits. The cumulative difference between the amounts expensed and the funding contributions is recorded in the Balance Sheet under "Other Liabilities".

Employees of the Bank are currently not required to contribute to the pension plans. The Bank has the ultimate responsibility for ensuring that pension obligations are adequately funded over time.

Included in Salaries and Benefits is an amount of $6,891 ($5,821 in 1999) for other future employee benefits. Accrued benefit obligations in the amount of $62,511 ($58,142 in 1999) for other future employee benefits are included in the Balance Sheet under "Other Liabilities".

18. CULTURAL INDUSTRIES DEVELOPMENT FUND

During the year, the Department of Canadian Heritage (DOCH) transferred the Cultural Industries Development Fund (CIDF) to the Bank at carrying value. In prior years the Bank administered CIDF on behalf of DOCH. Net assets transferred in the amount of $27,778 have been recorded as contributed surplus in the Balance Sheet and include cash of $17,634 and loans of $10,144.

19. RELATED PARTY TRANSACTIONS

The Bank is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Bank entered into transactions with these entities in the normal course of business.

20. SEGMENTED RESULTS OF OPERATIONS

The operations of the Bank are grouped into the business segments of Loans, Venture Capital and the Consulting Group. Disclosure of each segment's revenues, expenses and net income is set out in the Statement of Income consistent with the practice in previous years.

21. COMPARATIVE FINANCIAL DATA

Certain comparative figures have been reclassified to conform with the presentation adopted in 2000.

Canada
Council

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Canada Council and all the information in this annual report are the responsibility of Management and have been approved by the Council.

The financial statements have been prepared by Management in accordance with generally accepted accounting principles. When alternative accounting methods exist, Management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the financial statements.

The Canada Council maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the organization's assets are appropriately accounted for and adequately safeguarded.

The Council is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Council carries out this responsibility principally through its Audit and Finance Committee.

The Audit and Finance Committee is appointed by the Council and its members are Council members. The Committee meets periodically with Management, as well as the external auditor, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the annual report, the financial statements and the external auditor's report. The Committee reports its findings to Council for consideration when approving the financial statements.

The independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Canada Council, and for issuing his report thereon.

Shirley L Thomson
Director

Secretary-Treasurer

May 24, 2000

AUDITOR GENERAL OF CANADA
VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Canada Council
and the Minister of Canadian Heritage

I have audited the balance sheet of the Canada Council as at March 31, 2000 and the statements of operations, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Council's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Council as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 24, 2000

Financial Statements

CANADA COUNCIL

as at March 31, 2000 **Balance Sheet** *(in thousands of dollars)*

	2000	1999
ASSETS		
Current Assets		
Cash and short-term deposits (Note 3)	$ 9,658	$ 15,042
Accrued investment income	2,732	2,292
Accounts receivable	1,520	1,095
Deferred charges	1,120	1,310
	15,030	19,739
Investments (Note 4)	268,073	247,036
Works of art and musical instruments (Note 5)	19,056	19,027
Other capital assets, net (Note 6)	4,899	3,221
Total Assets	**$ 307,058**	**$ 289,023**
LIABILITIES		
Current Liabilities		
Grants payable	$ 21,757	$ 24,577
Accounts payable and accrued liabilities (Note 7)	3,051	2,639
	24,808	27,216
Deferred credits (Note 8)	2,412	2,768
Deferred contributions (Note 9)	5,210	4,810
Total Liabilities	32,430	34,794
PRIVATE ENDOWMENTS (Note 10)	71,654	66,895
EQUITY		
Endowment		
Original contribution	50,000	50,000
Appropriated surplus	126,770	108,770
	176,770	158,770
Surplus		
Invested in works of art and musical instruments	19,056	19,027
Unrestricted	7,148	9,537
	26,204	28,564
Total Equity	202,974	187,334
Total Liabilities, Private Endowments and Equity	**$ 307,058**	**$ 289,023**

On behalf of the Council:

Chair

Vice Chair

(See accompanying notes to the financial statements)

CANADA COUNCIL

Statement of Operations

for the year ended March 31, 2000 *(in thousands of dollars)*

	2000	1999
REVENUE		
Net investment income (Note 11)	$ 31,701	$ 22,747
Other	1,657	1,286
Total Revenue	33,358	24,033
EXPENSES		
Programs		
Grants (Schedule 2)	113,878	114,560
Administration (Schedule 3)	7,126	6,080
Services	2,129	2,584
	123,133	123,224
Canadian Commission for UNESCO (Note 12)	1,283	1,178
General administration (Schedule 3)	9,746	7,552
Net Art Bank costs (Note 12)	140	601
Total Expenses	134,302	132,555
Net loss before parliamentary appropriation	100,944	108,522
Parliamentary appropriation	116,584	116,169
Net income	**$ 15,640**	**$ 7,647**

(See accompanying notes to the financial statements)

CANADA COUNCIL

Statement of Changes in Equity

for the year ended March 31, 2000 *(in thousands of dollars)*

	2000	1999
ENDOWMENT		
Original contribution	$ 50,000	$ 50,000
Appropriated surplus		
Balance at beginning of the year	108,770	96,770
Appropriated from operating surplus during the year	18,000	12,000
Balance at end of the year	126,770	108,770
Balance of Endowment at end of the year	**$ 176,770**	**$ 158,770**
SURPLUS		
Invested in works of art and musical instruments		
Balance at beginning of year	$ 19,027	$ 18,496
Net additions and adjustments during the year	29	531
Balance at end of the year	19,056	19,027
Unrestricted		
Balance at beginning of the year	9,537	13,890
Net income	15,640	7,647
Net additions and adjustments during the year	(29)	-
Appropriated during the year	(18,000)	(12,000)
Balance at end of the year	7,148	9,537
Balance of surplus at end of the year	**$ 26,204**	**$ 28,564**

(See accompanying notes to the financial statements)

CANADA COUNCIL
Statement of Cash Flows
for the year ended March 31, 2000 *(in thousands of dollars)*

	2000	1999
OPERATING ACTIVITIES		
Net income	$ 15,640	$ 7,647
Items not affecting cash		
Amortization - other capital assets	1,147	793
Amortization - other capital assets - Art Bank	113	5
	16,900	8,445
Change in non-cash operating assets and liabilities	(3,068)	5,636
Cash flows from operating activities	13,832	14,081
FINANCING ACTIVITIES		
Endowment contributions received	193	–
INVESTING ACTIVITIES		
Investment income credited directly to private endowments	–	2,427
Deferred contributions internally restricted to private endowments	4,566	1,157
Net increase in investments	(21,037)	(11,871)
Acquisition of other capital assets	(2,938)	(1,824)
Proceeds from sale of other capital assets	–	4
Cash flows used in investing activities	(19,409)	(10,107)
Increase (decrease) in cash and cash equivalents	(5,384)	3,974
Cash and cash equivalents at beginning of the year	15,042	11,068
Cash and cash equivalents at end of the year	**$ 9,658**	**$ 15,042**

(See accompanying notes to the financial statements)

CANADA COUNCIL
Notes to Financial Statements
March 31, 2000

1. *Authority, Operations and Objectives*

The Canada Council, established by the Canada Council Act in 1957, is not an agent of Her Majesty and is deemed to be a registered charity for the purposes of the Income Tax Act. In accordance with section 85 of the Financial Administration Act, the Canada Council is exempt from Part X of this Act. The Canada Council is a national organization whose objectives are to foster and promote the study, enjoyment and production of works in the arts. These objectives are achieved through the giving of grants to professional Canadian artists and arts organizations. The Council has been assigned the functions and duties for the Canadian Commission for UNESCO.

2. *Significant Accounting Policies*

The most significant accounting policies are:

(a) Investments

Investments are recorded at cost and are written down to market value when the loss in value is considered to be other than a temporary decline.

(b) Works of art and musical instruments and other capital assets

Equipment and leasehold improvements are recorded at cost and amortized over their estimated useful lives using the straight-line method, as follows:

Office equipment	5 years
Leasehold improvements	term of the lease

Purchased works of art and musical instruments are recorded at cost. Donated works of art and musical instruments are recorded at their appraised value. No amortization is recorded on these assets.

(c) Employee termination benefits

Employees are entitled to specific termination benefits as provided for under the Council's policy and conditions of employment. The cost of these benefits is recorded as the benefits accrue to the employees.

(d) Parliamentary appropriation

Parliamentary appropriation is recognized as revenue in the year for which it is approved by Parliament. Parliamentary appropriations intended for future years received from Parliament before the end of the year are recorded as deferred parliamentary appropriations.

(e) Contributions

The Canada Council follows the deferred contribution method of accounting for contributions.

Annual contributions are recognized as revenue in the year received or in the year the funds are committed to the Canada Council if the amount can be reasonably estimated and collection is reasonably assured.

Unrestricted net interest and dividends, unrestricted net realized capital gains or losses, Art Bank rental fees and other revenues are recorded as revenue in the year they are earned. Externally restricted investment income is recorded as deferred contributions and is recognized as revenue in the year in which the related expenses are incurred.

Endowment contributions are recognized as direct increases to private endowments.

Contributions received in a form other than cash are recorded at their fair value at the date they are received by the Canada Council.

(f) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The employees and the Council contribute equally to the cost of the Plan. This contribution represents the total pension obligation of the Council. The Council is not required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(g) Post-retirement benefits

Retired employees are entitled to participate in the Council's dental, medical and life insurance benefit programs. The Council expenses a maximum one-half of the cost of the medical benefits for retired employees on a pay-as-you-go basis. The costs for the remaining benefits are borne entirely by the retired employees.

(h) Grants

Grants are recorded as an expense in the year for which they are approved by Council. Cancelled grants and refunds of grants approved in previous years are shown as revenue.

3. *Cash and Short-Term Deposits*

The Canada Council invests temporary surplus cash in a short-term pooled fund managed by Lancaster Investment Counsel. All instruments held in the pooled fund are rated R1(low) or A(low) or better by a recognized bond rating agency. Except for federal and federally guaranteed instruments, no more than 10% of the short-term portfolio is invested with one issuer.

The net book value of short-term deposits as at March 31, 2000 and March 31, 1999 approximated the market value.

4. *Investments*

	2000		1999	
	Cost	Market Value	Cost	Market Value
Canada Council and Other Endowments		(in thousands of dollars)		
Pooled funds	$ 179,401	$ 198,634	$ 159,865	$ 187,038
Bonds	29,122	28,580	28,983	29,278
Mortgages	10	10	11	11
	208,533	227,224	188,859	216,327
Killam Endowments				
Bonds	28,880	28,263	30,855	31,029
Pooled Funds	18,119	19,813	15,912	18,349
Equities	12,541	15,644	11,410	11,963
	59,540	63,720	58,177	61,341
Total investments	$ 268,073	$ 290,944	$ 247,036	$ 277,668

Pooled funds are in units of two global equity pooled funds, 47.3% in the Brinson Global Equity with Canada Fund for Canadian Charitable Trusts and 52.7% in the Templeton Master Trust - Series 2.

All bonds are rated "BBB" or better by a recognized bond rating agency. Except for federal and federally guaranteed instruments, no more than 10% of a manager's portfolio may be invested with one issuer. As at March 31, 2000, the Canada Council and other endowments and the Killam endowments have invested all of the bonds in Government of Canada bonds with an average duration of four and one half years and a market yield to maturity of 6.04% (1999 – 5.07%).

The investment in equities represents a diversified Canadian common equity portfolio made up of companies listed on the Toronto Stock Exchange 300 Index.

5. *Works of Art and Musical Instruments*

The Canada Council Art Bank has the largest number of contemporary Canadian works of art in Canada. It includes 18,000 paintings, sculptures, drawings, photographs and prints by over 2,500 artists. The Canada Council Art Bank rents the art works to interested parties and currently has about 5,800 works on rental to federal government departments and agencies, associations, hospitals, schools, municipalities and private corporations.

The Canada Council created the Musical Instrument Bank in 1985 and it currently owns four quality musical instruments and one quality bow. The first instrument, a Tecchler cello, was acquired through the fundraising efforts of W.I.M. Turner and cellist Denis Brott. The Brott-Turner-Tecchler cello is currently on loan to Denis Brott for the duration of his career. The second, the Windsor-Weinstein Stradivarius violin was acquired through the generous transfer of the instrument to the Canada Council by the Ontario Heritage Foundation. The Windsor-Weinstein Stradivarius which was on loan to James Ehnes for a period of three years, was returned to the Council in September 1999 and was in restoration as at March 31, 2000. The third, the 1674 McConnell Petrus Ranta cello was acquired through a generous donation from the J.W. McConnell Family Foundation. The McConnell Petrus Ranta is currently on loan to Sophie Rolland for the duration of her career. The fourth, the 1824 McConnell Nicolaus Gagliano cello also was acquired through a generous donation from the J. W. McConnell Family Foundation. The McConnell Nicolaus Gagliano is currently on loan to Denise Djokic for a period of two years. In 1999, a fine cello bow was donated to the Canada Council by Andrew Shaw. It will be offered to the winner of a competition for a loaned cello in July 2000.

6. *Other Capital Assets*

	2000			1999
	Cost	Accumulated amortization	Net Book Value	Net Book Value
	(in thousands of dollars)			
Office equipment	$ 6,211	$ 3,850	$ 2,361	$ 1,485
Leasehold improvements	5,804	3,266	2,538	1,736
	$ 12,015	$ 7,116	$ 4,899	$ 3,221

7. *Accounts Payable and Accrued Liabilities*

	2000	1999
	(in thousands of dollars)	
Accounts payable	$ 946	$ 509
Accrued termination benefits	881	672
Accrued liabilities	622	740
Accrued vacation pay	302	290
Accrued payroll expenses	300	428
	$ 3,051	$ 2,639

8. *Deferred Credits*

	2000	1999
	(in thousands of dollars)	
Deferred lease inducement	$ 1,940	$ 2,447
Art Bank - rentals of works of art	472	321
	$ 2,412	$ 2,768

The deferred lease inducement represents an inducement payment received from the landlord and is being amortized against rental accommodation expense over the term of the lease.

9. *Deferred Contributions*

Deferred contributions represent unspent externally restricted net income on endowments and contributions received by way of bequest and donations that have been restricted for specific purposes. In addition, deferred contributions include other sources of revenue that have been restricted for specific purposes. The funds of the endowments are included with the Canada Council's investment portfolio and a proportionate share for each endowment is calculated based upon the market value of the investment portfolio at the time the endowment was received. The externally restricted net income includes investment income (interest, dividends and net capital gains or losses) calculated annually as the proportionate share of each endowment plus any other sources of revenue. Revenue recognized during the year is equal to the grants and administration expenses incurred in order to meet the specific purpose for each endowment.

	Deferred Contributions (in thousands of dollars)				
	Balance at beginning of year	Externally restricted net income	Revenue recognized during the year	Internally restricted to private endowments	Balance at end of year
Killam Fellowships and Prizes	$ 1,190	$ 6,368	$ 2,280	$ 3,778	$ 1,500
Molson Prize	50	383	138	95	200
Lynch-Staunton	100	395	49	346	100
John G. Diefenbaker	50	277	76	176	75
Joseph S. Stauffer	50	64	8	56	50
Coburn Fellowship	20	175	20	115	60
Jean A. Chalmers	139	84	51	–	172
Vida Peene	–	97	97	–	–
Frances Elizabeth and J.P. Barwick	7	20	42	–	(15)
Japan-Canada Literary Prize	12	41	1	–	52
York Wilson Prize	10	44	18	–	36
Duke and Duchess of York Prize	16	26	11	–	31
John Stephen Hirsch	32	21	1	–	52
John B.C. Watkins	213	20	15	–	218
Ronald J. Thom Award	18	18	12	–	24
Jean M. Beaudet	5	3	–	–	8
Petro-Canada	46	8	–	–	54
Fund for Future Generations	14	1	–	–	15
Glenn Gould Prize Fund	981	65	91	–	955
Japan-Canada Fund	1,290	75	319	–	1,046
Visiting Foreign Artists program	18	14	–	–	32
Canadian Commission for UNESCO	529	58	58	–	529
Commission Internationale du Théâtre Francophone	20	70	74	–	16
	$ 4,810	$ 8,327	$ 3,361	$ 4,566	$ 5,210

10. *Private Endowments*

Private endowments consist of restricted donations received by the Council. The endowment principal is required to be maintained intact. The investment income generated from endowments must be used in accordance with the various purposes established by the donors. Also, the Council may internally restrict to private endowments a portion of the income earned on these donations.

Changes in private endowments are as follows:

	2000	1999
	(in thousands of dollars)	
Balance, beginning of year	$ 66,895	$ 63,311
Add donations received during the year		
York Wilson Prize	182	–
Other	11	–
	193	–
Add		
Deferred contributions internally restricted to private endowments	4,566	1,157
Investment income credited directly to private endowments	–	2,427
	4,566	3,584
Balance at end of year (Schedule 1)	$ 71,654	$ 66,895

11. *Net Investment Income*

	2000	1999
	(in thousands of dollars)	
Net gains on disposal of investments	$ 26,463	$ 18,563
Interest and dividends	12,101	9,301
Transferred to deferred contributions	(4,958)	(937)
Investment portfolio management costs	(1,905)	(1,753)
Investment income credited directly to private endowments	–	(2,427)
	$ 31,701	$ 22,747

12. *Canadian Commission for UNESCO and Net Art Bank Costs*

	2000	1999
	(in thousands of dollars)	
Canadian Commission for UNESCO		
Program	$ 347	$ 471
Administration	936	707
	$ 1,283	$ 1,178
Net Art Bank Costs		
Rental revenue	$ (1,242)	$ (1,138)
Other income	(48)	(48)
Administration	1,317	1,782
Amortization	113	5
	$ 140	$ 601

13. *Commitments*

(a) Payments of grants extending into future years are subject to the provision of funds by Parliament. Future year grants approved prior to March 31, 2000 are payable as follows:

	(in thousands of dollars)
2001	$ 33,761
2002	5,903

(b) The Council is party to long-term leases with respect to rental accommodation. The net minimum annual rental is as follows:

	(in thousands of dollars)
2001	$ 3,364
2002	3,364
2003	3,364
2004	2,098
2005	362
2006 - 2010	1,237

For the year ended March 31, 2000, the annual rentals have been reduced by $3,129,000 (1999 - $3,107,000) as a result of sub-leases with Public Works and Government Services Canada and The Encon Group.

14. *Related Party Transactions*

In addition to those related party transactions disclosed elsewhere in these financial statements, the Council enters into transactions with Government of Canada departments, agencies and Crown corporations in the normal course of business, at the same trade terms applicable to all individuals and enterprises.

15. *Comparative Figures*

Certain of the 1999 figures have been reclassified to conform to the presentation adopted in 2000.

Schedule 1

CANADA COUNCIL

Schedule of Private Endowments

as at March 31, 2000 *(in thousands of dollars)*

	2000	1999
Killam Fellowships and Prizes	$ 59,773	$ 55,996
Lynch-Staunton	2,916	2,570
Molson Prize	2,671	2,577
John G. Diefenbaker	1,799	1,622
Coburn Fellowship	1,561	1,445
Vida Peene	600	600
Joseph S. Stauffer	526	469
Jean A. Chalmers	500	500
York Wilson Prize	444	262
Japan-Canada Literary Prize	294	294
Duke and Duchess of York Prize	188	188
John Stephen Hirsch	134	134
Frances Elizabeth and J.P. Barwick	113	113
Ronald J. Thom Award	107	107
Other	28	18
	$ 71,654	$ 66,895

Schedule 2

CANADA COUNCIL

Schedule of Grant Expenses by Section

for the year ended March 31, 2000 *(in thousands of dollars)*

	2000	1999
Arts Programs (Note 9)		
Music	$ 21,092	$ 21,558
Theatre	20,017	20,349
Writing and Publishing	17,850	17,415
Visual Arts	15,264	15,364
Dance	12,679	12,269
Media Arts	8,947	9,145
Public Lending Right Commission	8,053	8,033
Millennium Arts Fund	3,720	5,318
Inter-Arts	1,077	936
Other	2,345	1,370
Killam Program		
Killam Research Fellowships	1,664	1,795
Izaak Walton Killam Memorial Prizes	300	150
Other Prizes and Awards		
Japan-Canada Fund	298	102
Canada Council Molson Prizes	100	200
Vida Peene Awards	97	84
John G. Diefenbaker Award	75	75
Commission Internationale du Théâtre Francophone	70	74
Jean A. Chalmers Fund	50	40
Glenn Gould Prize	50	–
Other prizes and awards < $50,000	130	283
	$ 113,878	$ 114,560

Schedule 3

CANADA COUNCIL
Schedule of Administration Expenses

for the year ended March 31, 2000 *(in thousands of dollars)*

	2000			1999
	Program	General Administration	Total	Total
Salaries	$ 4,624	$ 2,431	$ 7,055	$ 6,198
Employee benefits	907	552	1,459	1,229
Office accommodation	54	2,681	2,735	2,270
Professional and special services	547	1,198	1,745	1,068
Amortization	–	1,147	1,147	793
Printing, publications and duplicating	258	709	967	576
Staff travel	459	123	582	464
Communications	183	234	417	396
Meeting expenses including members' honoraria	46	222	268	197
Office expenses and equipment	32	219	251	177
Information management	8	222	230	220
Miscellaneous	8	8	16	44
	$ 7,126	$ 9,746	$ 16,872	$ 13,632

Canada
Deposit
Insurance
Corporation

Management Responsibility for Financial Statements

May 31, 2000

The accompanying financial statements of the Canada Deposit Insurance Corporation and the information related to the financial statements in this *Annual Report* are the responsibility of management. The financial statements have been prepared in accordance with generally accepted accounting principles. The financial statements include some amounts, the most significant ones being the loans and claims receivable, the provision for guarantees and the provision for insurance losses, that are necessarily based on management's best estimates and judgement.

The financial statements have been approved by the Board of Directors. Financial information presented elsewhere in the *Annual Report* is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are duly authorized, assets are safeguarded and proper records are maintained in accordance with the *Financial Administration Act* and regulations as well as the *Canada Deposit Insurance Corporation Act* and by-laws of the Corporation. The system of internal control is augmented by internal audit, which conducts periodic reviews of different areas of the Corporation's operations. In addition, the internal and external auditors have free access to the audit committee of the Board, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting and which recommends the financial statements to the Board of Directors.

These financial statements have been audited by the Corporation's auditor, the Auditor General of Canada, and his report is included herein.

Jean Pierre Sabourin
President and Chief Executive Officer

Bert C. Scheepers
Vice-President, Finance and Administration
and Chief Financial Officer

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AUDITOR GENERAL OF CANADA VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of the Canada Deposit Insurance Corporation as at March 31, 2000 and the statements of income and surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Deposit Insurance Corporation Act* and the by-laws of the Corporation.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 1, 2000

Balance Sheet as at March 31 *(in thousands of dollars)*

	Note	2000	1999
ASSETS			
Cash and short-term investments	3	$45,691	$737,566
Investments	4	445,619	–
Premiums and other accounts receivable		931	1,004
Capital assets		630	898
		492,871	739,468
Loans and claims receivable	5, 7	156,597	268,141
		$649,468	$1,007,609
LIABILITIES			
Accounts payable		$5,885	$5,694
Provision for guarantees	6, 7	60,000	575,000
Provision for insurance losses	7	400,000	400,000
		465,885	980,694
SURPLUS		**183,583**	**26,915**
		$649,468	$1,007,609

Approved by the Board:

Director

Director

See accompanying notes.

Statement of Income and Surplus for the year ended March 31 *(in thousands of dollars)*

	Note	2000	1999
REVENUE			
Premiums	10	$134,463	$515,040
Interest on cash and investments		31,579	27,639
Other revenue		3,166	35,825
		169,208	578,504
EXPENSES			
Operating expenses		17,500	16,414
Adjustment to allowance and provisions for loss	7	(2,927)	(10,701)
Recovery of amounts previously written off		(2,033)	(1,322)
Interest on loans from the Consolidated Revenue Fund		–	8,271
		12,540	12,662
Net Income		156,668	565,842
Surplus (deficit), beginning of year		26,915	(538,927)
Surplus, end of year		$183,583	$26,915

See accompanying notes.

Statement of Cash Flows for the year ended March 31 *(in thousands of dollars)*

	2000	*1999*
OPERATING ACTIVITIES		
Net income	$156,668	$565,842
Non-cash items included in net income		
Accrued post-liquidation interest	(2,100)	(26,000)
Adjustment to allowance and provisions for loss	(2,927)	(10,701)
Other	577	336
Payment of guarantees	(515,821)	(28,526)
Loans recovered	82,458	72,950
Claims paid	–	(130)
Claims recovered	34,934	57,882
Decrease in working capital	(3,049)	(594)
Cash flows from operating activities	(249,260)	631,059
INVESTING ACTIVITIES		
Purchase of securities and term deposits (net)	(442,615)	–
Cash flows from investing activities	(442,615)	–
FINANCING ACTIVITIES		
Repayments on loans from the Consolidated Revenue Fund	–	(395,000)
Cash flows from financing activities	–	(395,000)
CASH AND SHORT-TERM INVESTMENTS		
(Decrease) Increase during the year	(691,875)	236,059
Balance, beginning of year	737,566	501,507
Balance, end of year	$45,691	$737,566

See accompanying notes.

Notes to Financial Statements

March 31, 2000

1. Authority and Objective

The Corporation was established in 1967 by the *Canada Deposit Insurance Corporation Act* (the CDIC Act). It is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act* and is funded by premiums assessed against its member institutions.

The objects of the Corporation are to provide insurance against the loss of part or all of deposits in member institutions, to be instrumental in the promotion of standards of sound business and financial practices for member institutions, and to promote and otherwise contribute to the stability of the financial system in Canada. These objects are to be pursued for the benefit of depositors of member institutions and in such manner as will minimize the exposure of the Corporation to loss.

The Corporation has the power to do all things necessary or incidental to the furtherance of its objects, including acquiring assets from, and providing guarantees or loans to member institutions and others. Among other things, it may make or cause to be made inspections of member institutions, make standards of sound business and financial practices, and act as liquidator, receiver or inspector of a member institution or a subsidiary thereof.

2. Significant Accounting Policies

Basis of Preparation – These financial statements have been prepared in accordance with generally accepted accounting principles. These financial statements do not reflect the assets, liabilities or operations of failed member institutions in which the Corporation has intervened.

Use of Estimates – Financial statements prepared in accordance with generally accepted accounting principles necessarily include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The more significant areas requiring the use of estimates are: (i) the allowance for loss on loans and claims receivable, (ii) the provision for guarantees, and (iii) the provision for insurance losses.

The Corporation reviews these estimates annually. Actual losses, in the near term, could differ significantly from those estimates depending upon certain events and uncertainties including:

- The ability of the Corporation to recover its loans and claims receivable based on prevailing economic trends and expectations as to future developments.
- The Corporation's ability to recover its loans and claims receivable either by maximizing net recoveries from the sale of assets held by liquidators and agents, or through successful lawsuits as appropriate against relevant parties of failed member institutions.
- The extent to which the Corporation will be called upon to honour guarantees provided to member institutions and others.
- The timing and extent of losses the Corporation will incur as a result of future failures of member institutions. The provision for insurance losses is based upon an assessment of a wide variety of possible factors. These factors include historical experience, market perceptions, legal and regulatory developments, prevailing economic trends and forecasts, and accordingly involve considerable judgement.

The risk of deviation from the Corporation's estimates varies in proportion to the length of the estimation period and the potential volatility of the underlying assumptions. In the event that ultimate losses vary from the current estimates, the Corporation can recommend to the Governor in Council that the annual premium charged to member institutions be increased or decreased, depending on the situation. Also, the Corporation has authority to borrow funds from the capital markets or from the Consolidated Revenue Fund, subject to ministerial approval. CDIC can borrow up to $6 billion or such greater amount as may be authorized by Parliament under an appropriation act.

Cash and Short-Term Investments and Investments – Short-term investments and investments, consisting of marketable securities and term deposits, are carried at cost as they are intended to be held to maturity.

Loans Receivable – The Corporation may make loans to member institutions and others. The main purpose of providing these loans is to facilitate a resolution of the financial difficulties of member institutions. The terms and conditions attached to these loans provide for repayment of principal and interest. To the extent interest revenue is recorded in the accounts, it is included in other revenue.

Claims Receivable – Claims against member institutions arise from the subrogation of the rights and interests of depositors to the extent of the amount of the payment made by the Corporation to insured depositors. In addition, the Corporation asserts claims in respect of loans made to member institutions in liquidation.

In certain situations, the Corporation may be entitled to a proportional share in amounts in excess of its claim (referred to as post-liquidation interest). Such situation arises when there are assets remaining in an estate after all claims have been paid.

To the extent post-liquidation interest is recorded, it is included in other revenue.

Allowance and Provisions for Loss – In its financial statements, the Corporation records the following allowance and provisions for loss:

> *Allowance for Loss on Loans and Claims Receivable* – The allowance for loss on loans and claims receivable reflects the Corporation's best estimate of losses in respect of loans and claims receivable. The allowance is established by assessing the anticipated results of the asset disposition strategies and forecasted payments to creditors based on information received from the liquidators of failed member institutions and from other parties acting on behalf of the Corporation.
>
> Loans and claims receivable are written off against the allowance, in full or in part, when there is no reasonable expectation of realization. Any payments received on a loan or claim receivable are recorded first to recover amounts previously written-off before recognizing additional amounts as other revenue.
>
> *Provision for Guarantees* – In order to facilitate the resolution of financial difficulties of member institutions, the Corporation may provide guarantees. The provision for guarantees is determined by estimating the future cash payments required under these guarantees.
>
> *Provision for Insurance Losses* – The provision for insurance losses represents the Corporation's best estimate of losses resulting from insuring deposits of member institutions.
>
> The provision is established by: (i) assessing the aggregate risk of member institutions based on the Corporation's specific knowledge of its members, (ii) providing for the risk of loss relating to insured deposits by using a market-based composite risk-weighting system, and (iii) applying the percentage of loss experienced by the Corporation, stated on a present-value basis, resulting from member institution failures during the preceding ten years.
>
> The market-based composite risk-weighting system is affected by two factors: (i) the credit ratings of member institutions; and (ii) the market spreads between corporate bond issues and benchmark bond issues of the Government of Canada for comparable terms.

Changes in the allowance and provisions for loss that result from annual estimations for financial reporting purposes are recognized as an adjustment to the allowance and provisions for loss in the period in which the changes occur.

Premium Revenue – Premium revenue is calculated on the amount of insured deposits held by member institutions as at April 30 of each year. Premiums are recorded annually based on the Return of Insured Deposits submitted by member institutions, which is due July 15 of each year. Premiums are payable in two equal instalments on July 15 and December 15.

Other Revenue – The Corporation charges interest on loans made to member institutions and others. Interest continues to accrue on loans but is not recorded in the accounts when, in the Corporation's opinion, there is reasonable doubt as to collectability of the interest. In such cases, payments received are recognized as a reduction of the loan balance until such time as the loans are retired. Subsequent payments are recognized as other revenue on a cash basis.

In certain situations, amounts recovered from the estates of member institutions (claims receivable) exceed the amounts claimed. Such amounts (referred to as post-liquidation interest) are recorded as other revenue when they are reasonably determinable and reasonable certainty of receipt exists.

Pension Plan – All eligible employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan, required from both the employees and the Corporation, are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation.

Employee Future Benefits – Upon termination of employment, employees are entitled to certain benefits provided for under their conditions of employment. The cost of these benefits is expensed in the year in which benefits are earned by the employee.

3. Cash and Short-Term Investments

The short-term investments have a weighted-average term to maturity of less than 90 days. All of these investments are highly liquid fixed rate contracts.

(in thousands of dollars)	March 31, 2000			March 31, 1999		
	Amount	Weighted Average Effective Yield	Weighted Average Days to Maturity	Amount	Weighted Average Effective Yield	Weighted Average Days to Maturity
Short-Term Investments	$45,583	5.28%	50	$737,502	5.06%	84
Cash	108			64		
Total	**$45,691**			**$737,566**		

4. Investments

Investments have a term to maturity greater than 90 days but less than one year. They have a weighted-average effective yield of 5.74% (1999: nil) and a weighted-average term to maturity of 274 days (1999: nil). All investments are highly liquid fixed rate contracts.

(in thousands of dollars)	March 31, 2000	March 31, 1999
Treasury Bills	$329,894	–
Bankers' Acceptances	56,629	–
Bearer Deposit Notes	49,378	–
Commercial Paper	6,714	–
Sub Total	**442,615**	–
Accrued Interest	3,004	–
Total	**$445,619**	–

5. Loans and Claims Receivable

(in thousands of dollars)	March 31, 2000	March 31, 1999
Loans receivable	$70,025	$152,483
Allowance for loss	(8,200)	(9,200)
Net loans receivable	61,825	143,283
Claims receivable	99,572	141,658
Allowance for loss	(4,800)	(16,800)
Net claims receivable	94,772	124,858
Total	**$156,597**	**$268,141**

The loans receivable are repayable on demand and bear interest at floating rates varying with either prime rate or the 90-day Treasury Bill rate. No interest revenue was recognized on existing loans receivable, as the criteria for interest revenue recognition on the loans were not met (1999: nil). No new loans were made during the year.

During the year, the Corporation recorded $2.9 million (1999: $35.6 million) of post-liquidation interest.

6. Provision for Guarantees

In the course of business, the Corporation may provide various guarantees to member institutions and others.

In order to facilitate the resolution of member institutions in financial difficulty, the Corporation provided deficiency coverage guarantees. These guarantees provide for payment of a portion of the principal and income losses incurred on eligible assets acquired by third parties. The guarantees will remain in force, on a diminishing basis, until the year 2002.

The Corporation had provided collateralized guarantees to the investors of distress preferred shares issued by Adelaide Capital Corporation, an entity mandated to dispose of assets of former member institutions. These shares were redeemed in equal amounts of $250 million in September and November 1999, at which time the Corporation was called upon to honour its guarantees.

The nominal amount of outstanding guarantees provided by the Corporation is $548 million as at March 31, 2000 (1999: $1.3 billion) and the provision for guarantees as at March 31, 2000 is $60 million (1999: $575 million). The nominal amount represents the maximum exposure of the Corporation with respect to the guarantees provided. The nominal amount is not necessarily representative of the amount the Corporation expects to pay to third parties to meet its obligations under these guarantees.

7. Allowance and Provisions for Loss

The following table is a continuity schedule of the allowance for loss on loans and claims receivable, the provision for guarantees and the provision for insurance losses as at March 31, 2000 with corresponding totals as at March 31, 1999.

(in thousands of dollars)	March 31, 2000					March 31, 1999
	Loans Receivable	Claims Receivable	Guarantees	Insurance Losses	Total	Total
Beginning of period	$9,200	$16,800	$575,000	$400,000	$1,001,000	$1,040,227
Payments			(515,821)		(515,821)	(28,526)
Write-offs		(9,252)			(9,252)	
Adjustment to allowance and provisions for loss	(1,000)	(2,748)	821		(2,927)	(10,701)
End of period	$8,200	$4,800	$60,000	$400,000	$473,000	$1,001,000

The allowance and provisions for loss are subject to measurement uncertainty. As such, actual losses may differ significantly from these estimates.

8. Financial Instruments

Credit Risk – The Corporation is subject to credit risk from its holdings of short-term investments and investments. The Corporation minimizes its credit risk by adhering to the *Minister of Finance Financial Risk Management Guidelines for Crown Corporations*, by investing in high quality financial instruments and by limiting the amount invested in any one counterparty.

Loans and claims receivable relate to failed member institutions. Loans receivable is directly impacted by the ability of these entities to generate sufficient cash to meet their obligations to the Corporation as they become due. Realization of claims receivable is largely dependent on the credit quality or value of assets held within the estates of failed member institutions.

Fair Value – Other than cash and short-term investments, and investments, no active or liquid market exists in which the Corporation's financial assets and liabilities could be traded. Where no market exists for financial instruments, fair value estimates are based on judgements regarding current and future economic conditions and events, the risk characteristics of the instruments, and other factors. The estimates of fair value discussed below are made as at March 31, 2000 and involve uncertainties and matters of significant judgement. Changes in assumptions could materially affect the estimates.

The book value of cash and short-term investments, investments, premiums and other accounts receivable and accounts payable approximate fair value because of their short term to maturity.

The book value of loans and claims receivable approximates fair value as it represents the Corporation's best estimate of the amounts to be realized based on asset disposition strategies and forecasted repayments on account of loans and claims receivable. The Corporation bases its estimates on information received from the liquidators of failed member institutions and from other parties acting on behalf of the Corporation.

The book value of the provisions for guarantees and for insurance losses approximates fair value as it represents the Corporation's best estimate of future payments to be made under the guarantees, and losses on future claims.

9. Income Taxes

The Corporation is subject to federal income tax and has losses that can be carried forward to reduce future years' earnings for tax purposes. The Corporation is discussing a number of issues with the Canada Customs and Revenue Agency that may impact the amount of these losses. No future tax benefit has been recorded in the financial statements with respect to these losses since it is not virtually certain any significant future tax benefit will be realized.

Such losses total $554 million and expire as follows:

Year	Amount (in millions of dollars)
2001	$96
2002	202
2003	126
2004	90
2005	40
Total	**$554**

10. Insured Deposits and Premiums

Deposits insured by the Corporation, on the basis of returns received from member institutions as described in Note 2, Premium Revenue, as at April 30, 1999 and 1998, were as follows:

(in billions of dollars)	1999	1998
Federal institutions	$315	$306
Provincial institutions	2	2
Total	**$317**	**$308**

CDIC's differential premium by-law came into force on March 31, 1999. From that date, members have been classified into four different categories based on a system that scores them according to a number of criteria or factors. The premium rates in effect for 1999 are 1/24 of 1% of insured deposits for members in category 1, 1/12 of 1% for category 2 and 1/6 of 1% for members in categories 3 and 4. By way of comparison, the premium rate was 1/6 of 1% of insured deposits for all institutions as at April 30, 1998.

11. Contingent Liabilities

The Corporation is involved in a number of judicial actions that have arisen in the normal course of operations. In the opinion of the Corporation, none of these, individually or in the aggregate, would result in liabilities that would have a significant adverse effect on the financial position of the Corporation. However, the final outcome with respect to claims and legal proceedings pending at March 31, 2000 cannot be predicted with certainty. Accordingly, the impact of any matter will be reflected in the period in which the matter becomes determinable.

12. Operating Leases

The aggregate minimum rent payments (exclusive of other occupancy costs) for the Corporation's operating leases in effect as at March 31, 2000 are as follows:

Year	Amount (in thousands of dollars)
2001	$637
2002	571
2003	571
2004	571
2005	571
2006-2011	3,561
Total	**$6,482**

13. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Corporation, including those related to member institutions, suppliers, or other third parties, have been fully resolved.

14. Comparative Figures

Certain of the 1999 figures have been reclassified to conform to the presentation adopted for 2000.

Canada
Development
Investment
Corporation

THE CORPORATION'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Canada Development Investment Corporation are the responsibility of the Corporation and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by the Corporation in accordance with generally accepted accounting principles. When alternative accounting methods exist, the Corporation has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on best estimates and judgments. The Corporation has prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with that in the financial statements.

CDIC maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the financial records are reliable, form a proper basis for the preparation of financial statements and that CDIC's assets are properly accounted for and adequately safeguarded.

The Board of Directors carries out its responsibilities for the financial statements in this report principally through its Audit Committee. The Audit Committee reviews CDIC's annual consolidated financial statements and reports its findings to the Board for their consideration and approval. The Audit Committee also meets with the shareholder's auditors to discuss auditing matters and financial reporting issues. Due to its size, and as permitted by Order in Council, CDIC is exempt from the requirement to carry out internal audits.

These consolidated financial statements have been audited by the shareholder's auditors, the Auditor General of Canada and KPMG LLP, whose report is presented separately.

BWarmbold

Benita M. Warmbold
Director
Canada Development Investment Corporation

March 6, 2000

PRATIQUES EN MATIÈRE DE RÉGIE D'ENTREPRISE

Le conseil d'administration de la CDIC procède à la liquidation de la société, de façon efficace et efficiente. La CDIC a pour mandat de voir à la gestion commerciale des autres activités de la société.

Le conseil d'administration de la CDIC assume de façon active la direction et la gérance de la société, en travaillant en étroite collaboration avec les conseillers, l'avocat ainsi qu'avec le conseil d'administration et la direction de la SGCH, et en veillant au bon fonctionnement du conseil d'administration.

Dans l'exercice de ses activités, le conseil d'administration reçoit l'appui du comité de vérification et du comité de liaison administrative.

Le conseil d'administration participe à l'élaboration du plan d'enterprise de la société et en surveille la mise en œuvre au cours de la période visée. Pour ce faire, il évalue l'orientation stratégique de la société en fonction des nouvelles réalités du milieu des affaires. Il repère et gère les risques tout au long du processus.

Le plan d'enterprise approuvé par le conseil d'administration, le rapport annuel et les réunions exigées par le Ministre et les représentants du gouvernement permettent d'assurer une communication efficace avec l'État et le public.

Le président du conseil évalue l'efficacité du conseil d'administration et amorce le processus de renouvellement de ses membres, au besoin. La question de la régie d'entreprise relève de l'ensemble du conseil d'administration.

AUDITOR GENERAL OF CANADA
VÉRIFICATEUR GÉNÉRAL DU CANADA

KPMG
KPMG LLP
Chartered Accountants

AUDITORS' REPORT

To the Minister of Finance

We have audited the consolidated balance sheet of Canada Development Investment Corporation as at December 31, 1999 and the consolidated statements of income (loss) and accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation and of its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation and its wholly-owned subsidiaries.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada

February 18, 2000

KPMG LLP

Chartered Accountants

Ottawa, Canada

CANADA DEVELOPMENT INVESTMENT CORPORATION

Consolidated Balance Sheet

December 31, 1999, with comparative figures for 1998
(In thousands)

	1999	1998
Assets		
Current assets:		
Cash and short-term investments	$ 20,930	$ 14,762
Cash on deposit in the Consolidated Revenue Fund (note 4)	82,000	86,000
Cash restricted as to use (note 6 (g))	2,000	2,000
Receivable from Canada Hibernia Holding Corporation (note 5)	65	3,456
Receivables	154	90
	105,149	106,308
Investment in Canada Hibernia Holding Corporation (note 5)	–	–
	$ 105,149	$ 106,308
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities (notes 6(b), (e) and (f))	$ 8,658	$ 8,869
Notes payable to Atomic Energy of Canada Limited (note 6(g))	2,000	2,000
	10,658	10,869
Shareholder's equity:		
Share capital:		
Authorized - unlimited number of common shares		
Issued and fully paid - 101 common shares	1	1
Contributed surplus	743,184	743,184
Accumulated deficit	(648,694)	(647,746)
	94,491	95,439
Contingencies (note 6)		
	$ 105,149	$ 106,308

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:

Director

Director

CANADA DEVELOPMENT INVESTMENT CORPORATION

Consolidated Statement of Income (Loss) and Accumulated Deficit

Year ended December 31, 1999, with comparative figures for 1998
(In thousands)

	1999	1998
Corporate Operations:		
Interest earned on short-term investments	$ 876	$ 847
Other income	–	105
	876	952
Corporate and divestiture expenses	(912)	(2,933)
Recovery of divestiture expenses	–	6,256
	(912)	3,323
Corporate income (loss), net	(36)	4,275
Site restoration costs (note 6(e))	(590)	(242)
Provision for waste disposal costs (note 6(b))	(322)	(569)
Net income (loss)	(948)	3,464
Accumulated deficit, beginning of year	(647,746)	(651,210)
Accumulated deficit, end of year	$ (648,694)	$ (647,746)

The accompanying notes are an integral part of these consolidated financial statements.

CANADA DEVELOPMENT INVESTMENT CORPORATION

Consolidated Statement of Cash Flows

Year ended December 31, 1999, with comparative figures for 1998
(In thousands)

	1999	1998
Cash provided by (used in):		
Operating activities:		
Interest and other income received	$ 862	$ 1,018
Cash received from recovery of divestiture expenses	3,395	2,800
Cash paid for corporate and divestiture expenses	(898)	(2,333)
Cash paid for site restoration costs	(255)	–
Cash paid for waste disposal costs	(936)	(196)
	2,168	1,289
Investing:		
Net proceeds on disposition of Theratronics International Limited	–	12,650
Repayment of notes payable to Atomic Energy of Canada Limited	–	(20,650)
Transfer from cash restricted as to use	–	8,000
	–	–
Increase in cash	2,168	1,289
Cash, beginning of year	100,762	99,473
Cash, end of year	$ 102,930	$ 100,762

Cash is defined as cash and short-term investments and cash on deposit in the Consolidated Revenue Fund. The Corporation considers cash to be highly liquid investments with original maturities of three months or less.

The accompanying notes are an integral part of these consolidated financial statements.

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1. The Corporation:

Canada Development Investment Corporation ("the Corporation" or "CDIC") was incorporated in 1982 under the provisions of the Canada Business Corporations Act and is wholly-owned by Her Majesty in Right of Canada. The Corporation is subject to the Financial Administration Act and is an agent of Her Majesty.

In 1998, legislation was enacted which would subject the Corporation to the Large Corporations Tax ("LCT") provisions. The Minister of Finance has expressed the intention to recommend the deletion of the Corporation from the list of prescribed taxable Crown corporations effective December 31, 1994, the date upon which the Corporation's mandate was amended to proceed with the orderly wind-down of the operations of the Corporation. As a result, the Corporation will cease to be subject to income and capital taxes. The Corporation has no significant liability for the LCT for any prior period.

2. Activities of the Corporation:

CDIC's mandate is to wind down its operations by divesting of its remaining assets in an orderly fashion and reducing operating costs to a minimum.

The Board of Directors manages the Corporation with assistance of contract employees. In June 1998, legislative authority was received by CDIC to dispose of its remaining investments and for the Government to assume certain obligations. This legislation also gives the Minister of Finance the authority to wind-up the Corporation.

The Corporation's remaining significant assets are its investment in Canada Hibernia Holding Corporation ("CHHC") and the funds on deposit in the Consolidated Revenue Fund ("CRF").

The Corporation also manages contingencies discussed in note 6.

The Board of Directors of the Corporation is continuing to develop approaches to the divestiture of the Corporation's remaining assets and the orderly wind down of its remaining obligations.

3. Significant accounting policies:

(a) Basis of consolidation:

The financial statements of Canada Eldor Inc. ("CEI"), a wholly-owned subsidiary, have been consolidated with those of the Corporation.

(b) Investment:

The Corporation's investment in CHHC, a wholly-owned entity, which was acquired with the intention that it be disposed of or privatized in the foreseeable future is considered to be a temporary investment and is carried at the lower of cost and net realizable value.

The audited financial statements of CHHC are attached.

(c) Short-term investments:

Short-term investments are valued at cost which approximates fair value due to the short period to maturity.

(d) Divestiture costs and recoveries:

Divestiture costs are expensed when incurred and recoveries are recognized when reasonable assurance as to their collectibility exists. Divestiture costs are included in corporate and divestiture expenses.

(e) Measurement uncertainties of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

4. Cash on deposit in the Consolidated Revenue Fund:

CEI has $82,000 on deposit in a non-interest bearing special purpose account in the CRF. Funds can be drawn out of the account to extinguish any liability of CEI.

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5. Investment in Canada Hibernia Holding Corporation:

The Corporation's investment in CHHC has a cost of one dollar.

On March 19, 1993 CHHC acquired for no cost an 8.5% working interest in the Hibernia Development Project and an 8.5% equity interest in the Hibernia Management and Development Company Ltd. CHHC's sole purpose is the holding, management, funding and ultimately assisting in the disposal of the 8.5% interest in the Hibernia Development Project. Pursuant to a Memorandum of Understanding ("MOU") dated June 8, 1993 between the Government of Canada ("Government"), the Corporation and CHHC, the Government appropriated and paid directly to CHHC the funds necessary for CHHC to honour its obligations to fund the project costs of the Hibernia Development Project.

Production from Hibernia commenced in late 1997 and, in February 1998, CHHC achieved commercial production. It is anticipated that operations will continue to generate sufficient cash flow to fund its operations and fulfill its continuing obligations without further government appropriations.

CHHC uses the full cost method of accounting where the net carrying cost of CHHC's capital assets is limited to an estimated recoverable amount being the aggregate of future net revenues from proved reserves less future capital costs, costs of undeveloped properties, future general and administrative costs, future site restoration and abandonment costs and income taxes. No adjustments have been made to the carrying value of CHHC's capital assets as a result of this calculation.

Appropriations received directly from the Government by CHHC to fund the costs of the Hibernia Development Project were credited to contributed surplus of CHHC and are not reflected in the cost of CDIC's investment in CHHC. Total appropriations received to the end of 1999 net of repayments are $409,966 (1998 - $430,996), of which $399,364 (1998 - $406,392), net of accumulated depreciation and depletion, have been capitalized by CHHC related to the Hibernia Development Project. During 1999, $21,000 (1998 - $Nil) was returned to the Government as a return of appropriations.

Pursuant to the MOU, the Corporation funded the administrative costs of CHHC until CHHC was able to fund its own administrative costs. CDIC recorded these costs in corporate and divestiture expenses. To the end of 1998, the Corporation had funded CHHC administrative costs of $3,456. These costs were reimbursed by CHHC during 1999. CHHC now funds its own administrative costs and reimburses CDIC for any costs paid on behalf of CHHC.

6. Contingencies:

(a) On December 23, 1986, the Corporation sold its investment in Canadair Limited to BombardierCanadair Inc. The Corporation and the Government have agreed to indemnify BombardierCanadair Inc. and Canadair Limited for specified product related claims for fifteen years from December 23, 1986 for which insurance coverage is unavailable or economically impracticable to obtain. Reasonable estimates of the effects, if any, of this indemnity cannot be made at this time. Such amounts will be recognized in future years, as appropriate, when reasonable estimates can be made as to the likely amount, if any, which will ultimately be paid pursuant to this indemnity. No amounts have been paid to date under this indemnity.

(b) Under the terms of the agreement between CEI and Cameco Corporation ("Cameco"), CEI and Cameco agreed on a formula for sharing any future joint costs, excluding normal operating costs, related to certain specified existing wastes accumulated by CEI to October 5, 1988, the date of transfer of CEI's operations and assets to Cameco. Cameco assumed liability for the first $2,000 of joint costs. The next $98,000 in joint costs will be shared 23/98ths by Cameco, 75/98ths by CEI. CEI assumed liability for joint costs in excess of $100,000.

Alternatives for the economic disposal for existing wastes continue to be pursued by Cameco. The majority of the joint costs under the indemnity provisions of the agreement relate to existing waste material located in two sites which are closed and have not accepted further wastes since October 5, 1988. The ultimate magnitude of the joint costs is largely dependent on the outcome of the Government's determination and agreement with the affected local communities of where and what type of facility will be constructed to dispose of the waste, remediation standards that will be set by the Atomic Energy Control Board and the technologies that may be available to meet these standards at the time they are determined.

CEI accrues for these costs on an annual basis, based on reliable estimates provided by Cameco. As at December 31, 1999, Cameco estimates joint costs to be $13,441 (1998 - $13,048) of which CEI's share is $8,756 (1998 - $8,455). Accordingly, CEI has accrued this amount as its liability that is subject to reasonable estimation at this time. The balance payable, included in accounts payable and accrued liabilities, is $6,989 (1998 - $7,603). It is likely that CEI will incur further liability for joint costs to be incurred in the future; however, the ultimate magnitude of this liability is not reasonably estimable at this time. To December 31, 1999 actual total joint costs incurred by Cameco are $5,313 (1998 - $4,900) of which CEI's share is $2,536 (1998 - $2,220).

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6. Contingencies (continued):

(c) CEI is a co-defendant with Cameco in a lawsuit brought on behalf of certain members of the Eldorado Pension Plan. The lawsuit is based on the fact that approximately $15,500 of plan expenses and employer contributions were funded from the plan surplus rather than from the co-defendants.

Affidavits have been exchanged and cross examinations have been completed.

The co-defendants have a number of defences which continue to be vigorously pursued. Management remains of the opinion, after review of the facts with counsel, that the outcome of this case will not have a material financial impact in CEI.

(d) CEI is co-defendant with the Province of Ontario, the Attorney General of Canada, the Atomic Energy Control Board and BOC Canada Limited in a proposed class action suit brought by certain residents of the municipality formerly known as Deloro in the County of Hastings, Ontario. The lawsuit is based on the alleged contamination of certain properties. CEI has filed a notice of intent to defend. The outcome and impact, if any, of this suit on the Corporation, is currently not determinable.

(e) Under the terms of the agreement between CEI and Cameco, CEI agreed to reimburse Cameco for costs related to the final decommissioning of a former mine site. CEI accrues for these costs on an annual basis based on reliable estimates provided by Cameco. The ultimate magnitude of this liability is not reasonably estimable at this time.

(f) Under the terms of the agreement between CEI and Cameco, CEI is responsible for certain costs related to employees who retired prior to October 1988. CEI accrues for these costs as incurred.

(g) In May 1998, the Corporation sold its investment in Theratronics. As part of the purchase and sale agreement, the Corporation indemnified the purchaser for certain representations contained in the agreement of purchase and sale to the maximum of $2,000. An amount of $2,000 was held back to satisfy indemnity claims relating to the sale and is included in these financial statements as "Cash restricted as to use".

The indemnity period expired in November 1999. Any balance of the $2,000 withheld to cover the indemnity, net of claims, will be paid to AECL on the settlement of the outstanding claims. Three claims have been made under the indemnity provision.

7. Comparative figures:

Certain 1998 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1999.

KPMG

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AUDITORS' REPORT

To the Shareholder of
Canada Hibernia Holding Corporation

We have audited the balance sheets of Canada Hibernia Holding Corporation as at December 31, 1999 and 1998 and the statements of operations and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Financial Administration Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Canada Business Corporation Act and the articles and by-laws of the Corporation.

KPMG LLP
Chartered Accountants

Calgary, Canada
February 18, 2000

KPMG LLP a Canadian owned limited liability partnership established under the [illegible]

CANADA HIBERNIA HOLDING CORPORATION

Balance Sheets

December 31, 1999 and 1998
(Thousands of Dollars)

	1999	1998
Assets		
Current assets:		
Cash and investments	$ 37,614	$ 26,504
Accounts receivable	917	771
Prepaid expenses	839	750
Inventory	1,103	–
	40,473	28,025
Capital assets (note 3)	436,243	444,768
Future income taxes (note 7)	–	1,500
Deferred foreign exchange	518	2,936
	$ 477,234	$ 477,229
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 4,136	$ 4,116
Taxes payable	–	51
Due to shareholder (note 5)	65	3,456
Current lease obligation (note 4)	1,907	1,530
	6,108	9,153
Long-term lease obligation (note 4)	34,549	38,730
Future income taxes (note 7)	5,300	–
Provision for abandonment	4,692	2,059
	50,649	49,942
Shareholder's equity:		
Capital stock:		
Authorized unlimited number of common shares		
Issued and fully paid - 1 common share	–	–
Contributed surplus	409,966	430,966
Retained earnings (deficit)	16,619	(3,679)
	426,585	427,287
Commitment and contingencies (note 8)		
	$ 477,234	$ 477,229

See accompanying notes to financial statements.

On behalf of the Board:

______________ Director

______________ Director

CANADA HIBERNIA HOLDING CORPORATION

Statements of Operations and Retained Earnings (Deficit)

Years ended December 31, 1999 and 1998
(Thousands of Dollars)

	1999	1998
Revenue:		
Crude oil sales	$ 74,188	$ 35,967
Interest	1,472	539
	75,660	36,506
Expenses:		
Depreciation and depletion	24,157	17,438
Operating	14,921	13,371
Interest - capital lease	4,292	4,220
Provision for abandonment	2,633	2,059
Administrative	835	685
Other	784	112
	47,622	37,885
Income (loss) before income and other taxes	28,038	(1,379)
Income and other taxes:		
Future income tax expense (recovery) (note 7)	6,800	(1,500)
Large corporation tax	940	950
	7,740	(550)
Net income (loss) for the year	20,298	(829)
Deficit, beginning of year	(3,679)	(2,850)
Retained earnings (deficit), end of year	$ 16,619	$ (3,679)

See accompanying notes to financial statements.

CANADA HIBERNIA HOLDING CORPORATION

Statements of Cash Flows

Years ended December 31, 1999 and 1998
(Thousands of Dollars)

	1999	1998
Cash provided by (used in):		
Operations:		
Net income (loss) for the year	$ 20,298	$ (829)
Future income tax expense (recovery)	6,800	(1,500)
Depreciation and depletion	24,157	17,438
Provision for abandonment	2,633	2,059
Decrease (increase) in non-cash working capital	(4,760)	6,300
	49,128	23,468
Investment:		
Capital assets (note 3)	(15,632)	(17,598)
Financing:		
Parliamentary appropriations (return of appropriations)	(21,000)	22,368
Decrease in lease obligation	(1,386)	(1,734)
	(22,386)	20,634
Increase in cash and investments	11,110	26,504
Cash and investments, beginning of year	26,504	–
Cash and investments, end of year	$ 37,614	$ 26,504

See accompanying notes to financial statements.

1. Canada Hibernia Holding Corporation:

Canada Hibernia Holding Corporation (the "Company" or "CHHC") was incorporated under the provisions of the Canada Business Corporation Act on December 4, 1992. The Company was acquired by Canada Development Investment Corporation ("CDIC") in March 1993. Prior to March 1993 the Company was inactive. The Company is subject to the Financial Administration Act.

On March 19, 1993, the Company acquired for no cost an 8.5% working interest in the Hibernia Development Project and an 8.5% equity interest in the Hibernia Management and Development Company Ltd. ("HMDC"). CHHC's sole purpose is the holding, management, funding and ultimately, disposal of the 8.5% equity interest in the Hibernia Development Project. Pursuant to a Memorandum of Understanding ("MOU") dated June 8, 1993 between the Government of Canada ("Government"), CDIC and CHHC the Government appropriated the funds necessary for CHHC to honour its obligations to fund the project costs of the Hibernia Development Project. The Company's expenditures do not qualify for government contributions or government quaranteed limited-recourse loans provided to the other owners of the project. Production from Hibernia commenced in late 1997 and during 1998 CHHC achieved sufficient cash flow to fund its operations and fulfill its continuing obligations without further government appropriations.

HMDC is a company formed to act as agent for the participants in the Hibernia Development Project. All project expenditures, other than those relating to the transportation of oil from the project and royalties, are charged to the Joint Account which is owned by the participants in proportion to their working interest. The Joint Account is funded directly by the participants.

During the latter part of 1997, the Hibernia Development Project received initial production from two successful wells. As at December 31, 1999 sixteen wells have been drilled of which eight are injection wells and eight are on production. Two wells were in progress at December 31, 1999. Commercial production was reached in February 1998 (note 2(c)). To date CHHC has lifted and sold 4,908,000 barrels of crude oil.

The Company's wholly-owned subsidiary, CHHC Oil Limited was incorporated in December 1997 and is currently inactive.

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2. Significant accounting polices:

(a) Investment in the Hibernia Development Project and Hibernia Management and Development Company Ltd.:

Development costs charged to the Joint Account subsequent to the date of acquisition of the working interest are capitalized. Development costs include costs of engineering construction and installation of production facilities comprised of a Gravity Based Structure and Topsides facilities (offshore production facility). General and administrative costs incurred prior to the project reaching commercial production have also been capitalized. All of the Company's development activities are conducted jointly with the other owners.

(b) Contributed surplus:

Appropriations received from the Government to fund the Company's activities are credited to contributed surplus. Funds returned to the government as a return of appropriations are charged against contributed surplus. During 1999 $21,000 (1998 - $nil) was returned to the Government.

(c) Commercial production:

The Hibernia Development Project defines "commercial production" to occur upon the production of the first three million barrels of crude oil from the project (CHHC's 8.5% interest is 255,000 barrels). Until commercial production was achieved the Company capitalized all costs of production and transportation net of revenues as pre-production costs. Such pre-production costs are included as costs of the project and are depleted together with other such costs on a unit-of-production basis. The Company commenced commercial production in February 1998. The Company follows the full cost method of accounting and the net carrying cost of the Company's capital assets is limited to an estimated recoverable amount being the aggregate of future net revenues from proved reserves less future capital costs, costs of undeveloped properties, future general and administrative costs, future site restoration and abandonment costs and income taxes.

(d) Depreciation and depletion:

Costs are transferred to the depreciable pool as proved reserves are established and are depreciated or depleted on a unit-of-production basis using proved reserves. The Company excludes a portion of incurred costs associated with the project based on a comparison of existing proved reserves to total proved and probable reserves expected to be established upon the completion of the Project. At December 31, 1999 the Company excluded $118,000 (1998 - $120,000) from the calculation of depreciation and depletion. The crude oil tanker is depreciated on a unit of production basis using volumes transported over the estimated life of the Hibernia field.

2. Significant accounting polices (continued):

(e) Abandonment:

Future abandonment costs are expensed on a unit-of-production basis over the life of the remaining proved reserves. These costs are based on year-end engineering estimates of the anticipated costs of site restoration. Actual expenditures, as incurred, will be applied against the future abandonment liability.

(f) Foreign currency translation:

Transactions of the Company that are denominated in foreign currencies are recorded in Canadian dollars at exchange rates in effect at the related transaction dates. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect exchange rates at the balance sheet date. Monetary items denominated in a foreign currency and having a fixed or ascertainable life of more than one year are translated into Canadian dollars at the rate of exchange in effect at the end of the period. The resulting unrealized transaction gains or losses are deferred and amortized over the term of the monetary items.

(g) Cash and investments:

The Company's investments are considered to be cash equivalents and are recorded at cost, which approximates market value.

(h) Inventory:

Inventory of crude oil is valued at the lower of cost to produce or net realizable value.

(i) Income taxes:

Income taxes are calculated using the liability method of tax allocation accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

3. Capital assets:

Capital assets are recorded at cost less accumulated depreciation and depletion.

			1999	1998
	Cost	Accumulated depreciation and depletion	Net book value	Net book value
Hibernia Development Project:				
Offshore production facility	$ 406,922	$ 28,127	$ 378,795	$ 393,492
Drilling costs	31,382	10,813	20,569	12,900
	438,304	38,940	399,364	406,392
Crude oil tanker (note 4)	39,534	2,655	36,879	38,376
	$ 477,838	$ 41,595	$ 436,243	$ 444,768

4. Crude oil tanker:

During 1995, the Company, together with one of the other participants, entered into agreements providing for the time charter and operations of a tanker for the transportation of oil from the project. The Company's share of annual fixed obligations is approximately $6,000. Payments commenced in November, 1997 for an initial term of ten years. The agreement provides for one five-year and five two-year optional extensions not to exceed a total lease term of twenty-five years. The time charter has been treated as a capital lease for accounting purposes. Accordingly, CHHC's 25.373% interest in the tanker has been capitalized and is presented on the balance sheet under capital assets. The long-term lease obligation represents the present value of the tanker time charter capital payments discounted at 11.1% over 19 years.

5. Due to shareholder:

CDIC funded the administration costs of CHHC until December 31, 1998. Included in these costs are $2,625 of administrative costs incurred prior to commercial production which have been capitalized as part of the offshore production facility. The amount outstanding at December 31, 1998 was repaid to CDIC during 1999.

6. Royalty:

The Hibernia Royalty Agreement provides for royalties to be paid by owners, to the province of Newfoundland as follows:

(a) 1% to 5% payable on gross sales less transportation costs;

(b) 30% payable on net sales revenue commencing at such time as cumulative net sales revenue exceeds 8½% of the total investments in the Project. Total investment (which includes gross royalties paid in (a)) includes a 1% allowance for capital expenditures and a 10% allowance for operating costs, and a 15% return allowance, on the total investment, compounded annually.

The Net Profits Interest Agreement (NPI) provides for a 10% royalty payable to the Government of Canada commencing upon the Hibernia owners having repaid certain financial assistance provided by the Government of Canada (estimated to be 2009) and certain levels of project profitability having been achieved. The royalty is payable on each owner's cumulative net sales revenue less cumulative eligible capital, operating and transportation costs.

7. Income taxes:

The Company has available resource-related deductions and non-capital losses which may be carried forward and used in the prescribed manner to reduce taxable income in future years. At December 31, 1999, resource-related deductions were approximately $380,500 (1998 - $402,100) and non-capital loss carryforwards and investment tax credits were $nil (1998 - $8,500) and $58,000 (1998 - $57,500), respectively. The excess of CHHC's net book value of its assets above its income tax pools has been recorded as a future income tax liability at the current income tax rate.

The components of the net future income tax liability (asset) at December 31, are as follows:

	1999	1998
Future income tax assets:		
Abandonment costs	$ (1,548)	$ (679)
Capital assets	–	(1,404)
	(1,548)	(2,083)
Future income tax liabilities:		
Capital lease	310	347
Other	307	236
Capital assets	6,231	–
Net future income tax liabilities (assets)	$ 5,300	$ (1,500)

8. Commitment and contingencies:

(a) The Company has entered into an agreement with Newfoundland Transhipment Limited whereby the Company acquired the right to the use of the Transhipment Terminal for crude oil storage and transhipment. The Company is committed to pay a portion of the cost of operation of the terminal over a ten year period. The Company's share of the annual obligations is subject to annual calculations and is approximately $1,440 for 2000 and $1,200 thereafter.

(b) CHHC's share of HMDC's annual lease obligations for office, equipment and warehouse land and building together with CHHC's office lease obligation for the next five years are approximately as follows:

2000	$	2,747
2001		2,450
2002		2,110
2003		588
2004		569

(c) The Company became a participant in the Hibernia Development Project effective from the day of the first billion dollars of charges to the Joint Account. The determination of the first billion dollars of charges to the Joint Account and required owner contributions involves interpretations for the treatment of charges, credits and government contributions under the Hibernia Owner Agreements. Matters of interpretation have yet to be resolved between Gulf Canada Resources Limited and certain project owners. The outcome of this matter may result in a recovery to CHHC, the amount of which is presently not determinable but in the view of management is not likely to be material to the financial position of the Company.

Canada
Lands
Company
Limited

Management Responsibility for Financial Reporting

The consolidated financial statements of Canada Lands Company Limited have been prepared by management of the Corporation in accordance with generally accepted accounting principles.

Management maintains financial and management reporting systems which include appropriate controls to provide reasonable assurance that the Corporation's assets are safeguarded, to facilitate the preparation of relevant, reliable and timely financial information and to ensure that transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and the by-laws of the Corporation.

Where necessary, management uses judgement to make estimates required to ensure fair and consistent presentation of this information.

The Board of Directors is composed of seven directors, none of whom are employees of the Corporation. The Board of Directors has the responsibility to review and approve the financial statements, as well as overseeing management's performance of its financial reporting responsibilities. An Audit Committee appointed by the Board of Directors of the Corporation has reviewed these statements with management and the auditors and has reported to the Board of Directors. The Board of Directors has approved the financial statements.

The auditors are responsible for auditing the financial statements and has issued a report thereon.

All other financial and operating data included in the Annual Report are consistent, where appropriate, with information contained in the financial statements.

W. Roman Winnicki
President and CEO
(Interim)
12 May 2000

B.E. Richardson
Vice President,
Chief Financial Officer
12 May 2000

Auditors' Report

To the Minister of Public Works and Government Services

We have audited the consolidated balance sheet of Canada Lands Company Limited as at 31 March 2000 and the consolidated statements of income and retained earnings and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 March 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, except for the change in the method of accounting for income taxes as explained in Note 9 to the consolidated financial statements, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation and of its wholly owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and the by-laws of the Corporation and its wholly owned subsidiaries.

As required by paragraph 132 (2) (b) of the *Financial Administration Act*, we wish to bring to Parliament's attention an other matter. As disclosed in Note 1 to the consolidated financial statements, Parc Downsview Park Inc., a wholly owned subsidiary of the Corporation, commenced operations in April 1999. In accordance with the government's decisions, it was incorporated under the *Canada Business Corporations Act* pursuant to an order-in-council. However, the Government of Canada has not requested and accordingly, to date, Parliament has not provided clear and explicit authority for the creation and operation of a national urban park, nor has it authorized the related spending of public funds.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada
Ottawa, Canada

KPMG LLP
Chartered Accountants

Toronto, Canada

Consolidated Statement of Income and Retained Earnings

For the year ended 31 March (In thousands)	Note	2000	1999
Revenues			
Property sales		**$ 103,885**	$ 144,866
Rental		**21,311**	28,234
Interest and other	10	**16,968**	21,866
		142,164	194,966
Expenses			
Cost of property sales		**79,009**	126,789
Provision for decrease in property values		**3,703**	6,050
Rental operating costs		**15,035**	18,321
General and administrative		**14,193**	13,635
Other		**6,161**	8,217
		118,101	173,012
Income before park operations		**24,063**	21,954
Loss from park operations before government funding	8	**(3,575)**	–
Government funding for park operations	8	**3,707**	–
		132	–
Income before taxes		**24,195**	21,954
Income taxes	9	**9,068**	8,225
Net income		**15,127**	13,729
Retained earnings, beginning of year		**37,919**	24,190
Change in accounting policy	9	**14,103**	–
Retained earnings, end of year		**$ 67,149**	$ 37,919

See accompanying notes to consolidated financial statements

Consolidated Balance Sheet

As at 31 March (In thousands)	Note	2000	1999
Assets			
Properties			
Rental properties	3	**$ 93,296**	$ 109,788
Properties under development		**63,396**	65,816
Land held for development or sale		**71,869**	80,458
		228,561	256,062
Other assets			
Cash and short-term investments		**65,636**	64,794
Amounts receivable and other	4	**104,610**	106,852
Park landscaping and improvements		**1,871**	–
		172,117	171,646
		$ 400,678	$ 427,708
Liabilities and shareholder's equity			
Liabilities			
Notes payable	5	**$ 93,612**	$ 118,832
Lease assignment obligation	6	**16,153**	19,375
Accounts payable and accrued liabilities	10	**41,488**	56,856
Prepaid rents, deposits and other		**37,195**	22,968
		188,448	218,031
Shareholder's equity			
Capital stock	7	**–**	–
Contributed surplus	7	**145,081**	171,758
Retained earnings		**67,149**	37,919
		212,230	209,677
Commitments	10		
		$ 400,678	$ 427,708

See accompanying notes to consolidated financial statements.

On behalf of the Board

Jon K. Grant

Charles Pelletier

Consolidated Statement of Cash Flow

For the year ended 31 March
(In thousands)

	Note	2000	1999
Operating activities			
Net income		**$ 15,127**	$ 13,729
Recovery of real estate costs on sale		**72,772**	81,312
Expenditures on properties		**(41,566)**	(63,051)
Provision for decrease in property values		**3,703**	6,050
Depreciation		**2,573**	3,400
Future income tax expense		**5,378**	-
Deferred income tax expense		**-**	3,047
		57,987	44,487
Net change in non-cash operating assets and liabilities		**9,376**	5,788
Cash provided by operating activities		**67,363**	50,275
Financing activities			
Repayment of notes payable		**(39,323)**	(5,441)
Reduction of capital stock	7	**(26,677)**	(46,559)
Government funding for park	12	**5,139**	2,000
Government funding used for park operating activities		**(3,707)**	-
Proceeds from lease assignment obligation		**-**	19,375
Repayment of mortgages payable		**-**	(6,913)
Cash used in financing activities		**(64,568)**	(37,538)
Investment activities			
Expenditures on park and building improvements		**(1,953)**	-
Cash used in investment activities		**(1,953)**	-
Increase in cash		**842**	12,737
Cash and short-term investments, beginning of year		**64,794**	52,057
Cash and short-term investments, end of year		**$ 65,636**	$ 64,794

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1

AUTHORITY AND ACTIVITIES OF THE CORPORATION

Canada Lands Company Limited, a non-agent Crown corporation, originally named Public Works Lands Company Limited, was incorporated under the *Companies Act* in 1956 and was continued under the *Canada Business Corporations Act*. It is listed as a parent Crown corporation in Part I of Schedule III to the *Financial Administration Act*.

The Corporation conducts its real estate business operations through Canada Lands Company CLC Limited ("CLC"), its principal wholly owned subsidiary. CLC's objective is to carry out a commercially oriented and orderly disposal program of certain Government of Canada ("Government") real properties and the management of certain select properties. In undertaking this objective, CLC may manage, develop and dispose of real properties, either in the capacity of owner or as agent for the Government.

On 17 July 1998, pursuant to an order-in-council, Parc Downsview Park Inc. ("PDP"), (formerly CLC Downsview Inc.), was incorporated as a wholly owned subsidiary of the Corporation. The principal objective of PDP is to develop the former Canadian Forces Base Toronto, in Downsview, Ontario as a unique recreational greenspace to be held in perpetuity for the enjoyment of future generations.

The Government has approved in principle the transfer to PDP by way of freehold title or long-term lease of approximately 600 acres of land. It is the Government's intention that approximately 300 acres of these lands will be used for park, cultural and recreational purposes, while the remainder will be made available for commercial activities to generate funds that will be used for the development and operation of the park. It is estimated that over the next 20 years, the commercial activities will generate over $100 million, which will be used for park purposes. At 31 March 2000, PDP had not yet acquired an interest in the lands, and the development plans for the lands have not yet been finalized.

2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) General

The consolidated financial statements are prepared in accordance with generally accepted accounting principles. With respect to real estate activities, the

Corporation's accounting policies and standards of financial disclosure are also substantially in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies, of which the Corporation is an associate member.

b) Consolidation

The Corporation has four wholly owned subsidiary companies, CLC, Old Port of Montréal Corporation Inc. ("Old Port"), PDP and an inactive company, 3148131 Canada Limited ("3148131"), which are accounted for as follows:

i) The Corporation consolidates the accounts of CLC, PDP and 3148131.

ii) Old Port is excluded from consolidation because the Corporation does not have continuing power to determine its strategic operating, investing and financing policies and because Old Port has been directed by the Government to report as a parent Crown corporation. The Corporation has no recorded investment in Old Port.

As at 31 March 1999, the latest date for which audited statements are available, Old Port had assets of $5.8 million, liabilities of $5.7 million, and equity of Canada of $0.1 million with revenue of $8.7 million and an excess of operating expenditures over revenue of $4.5 million for the year then ended.

c) Revenue Recognition

The Corporation recognizes revenue as follows:

i) Property sales

When the Corporation has fulfilled all material conditions and received a payment that is appropriate in the circumstances having regard to the financial resources of the purchaser.

ii) Properties under development

Revenues and operating costs for rental properties are recognized when break-even cash flow after debt service is achieved, but not later than one year after substantial completion.

d) Properties

i) Rental properties are carried at the lower of depreciated cost and net recoverable amount or, if intended for disposition, at the lower of depreciated cost and estimated net realizable value. Properties under development and land held for development or sale are carried at the lower of cost and estimated net realizable value. Adjustments to the carrying value of properties are recorded in the "provision for decrease in property values" in the statement of income.

ii) The Corporation capitalizes interest on specific debt on properties under development and land held for development or sale.

iii) Depreciation is calculated on the straight-line method using rates based on the estimated remaining useful lives of the assets, which range from 5 to 40 years.

e) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

In determining estimates of net realizable values for its properties, the Corporation relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events. Due to the assumptions made in arriving at estimates of net realizable value, such estimates, by nature, are subjective and do not necessarily result in a precise determination of asset value.

The Corporation's properties are subject to various government laws and regulations relating to the protection of the environment. The Corporation has made, and expects to make in the future, expenditures to comply with such laws and regulations. Where estimated costs are reasonably determinable, the Corporation considers such costs in arriving at estimates of net realizable value of its properties, based on management's estimate of such costs. Such estimates are, however, subject to change based on agreements with regulatory authorities, changes in laws and regulations, the ultimate use of the property, and as new information becomes available.

3

RENTAL PROPERTIES

The Corporation's rental properties consist of the CN Tower, residential apartments and car parking facilities.

In thousands of dollars	**2000**	1999
Land	**$ 20,595**	$ 24,100
Buildings	**87,218**	98,483
	107,813	122,583
Accumulated depreciation	**14,517**	12,795
	$ 93,296	$ 109,788

4

AMOUNTS RECEIVABLE AND OTHER

Amounts receivable and other assets are comprised as follows:

In thousands of dollars	2000	1999
Mortgages and secured notes	**$ 57,724**	$ 62,419
Assignment of rents	**34,345**	34,971
Rents and other	**12,541**	9,462
	$ 104,610	$ 106,852

a) Mortgages and secured notes receivable bear interest at a weighted average rate of 7.2% (1999 – 6.4%), and are receivable as follows:

In thousands of dollars		
Years ending 31 March	2001	**$ 16,983**
	2002	**8,256**
	2003	**4,780**
	2004	**4,780**
	2005	**4,540**
Subsequent years		**18,385**
		$ 57,724

b) The Corporation has a receivable under an assignment agreement in respect of rents receivable, which entitles it to receive rental income until 2013. In March 1999, the Corporation sold the right to receive certain of the rental income (Note 6).

5

NOTES PAYABLE

The notes payable were issued in consideration for the acquisition of real estate properties (Note 12), and are due to the Government and a Crown corporation. The notes are repayable on the earlier of their maturity dates, or the dates on which net proceeds become available from the sale by the Corporation of the properties in respect of which the notes were issued. Interest is accrued and capitalized to properties or expensed, as appropriate, at a weighted average rate of 5.4% (1999 – 5.2%).

Based on the anticipated timing of the sale of the real estate properties, principal repayments are estimated to be as follows:

In thousands of dollars		
Years ending 31 March	2001	**$ 20,778**
	2002	**44,189**
	2003	**12,086**
	2004	**13,363**
	2005	**5,542**
Subsequent years		**9,050**
		105,008
Less amounts representing imputed interest		**11,396**
		$ 93,612

6

LEASE ASSIGNMENT OBLIGATION

In March 1999, the Corporation sold the right to receive certain of the rental income due under an assignment agreement (Note 4b). The proceeds of $19.4 million were recorded as a financing obligation and interest expense is being recorded in the statement of income at a rate of 7.2%.

7

CAPITAL STOCK AND CONTRIBUTED SURPLUS

The Corporation is authorized to issue three shares, which shall only be transferred to a person approved by the Minister of Public Works and Government Services ("the Minister"). The three authorized shares have been issued and are held in trust for Her Majesty in right of Canada by the Minister. Nominal value has been ascribed to the three issued shares of the Corporation.

During the year ended 31 March 2000, in accordance with the *Canada Business Corporations Act*, the Corporation transferred $26.7 million (1999 - $46.6 million) of its contributed surplus to capital stock and subsequently reduced its capital stock by this amount by payment to the Shareholder.

8

INCOME FROM PARK OPERATIONS

Income from the park operations of PDP for the year ended 31 March 2000 (1999 - Nil) is as follows:

Revenues	$ 3,170
Expenses	6,745
	(3,575)
Government funding	3,707
Income	$ 132

9

INCOME TAXES

a) **Change in Accounting Policy**

The Corporation has adopted the new standard of the Canadian Institute of Chartered Accountants for accounting for income taxes, which requires a change from the deferral method of accounting for income taxes to the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using tax rates expected to apply when the asset is realized or the liability settled, and the effect of a change in tax rates is recognized in income in the period that a change in rates occurs.

The Corporation has adopted the new standard retroactively without restatement of the 1999 comparative figures, with the result that the retained earnings as at 1 April 1999 has been increased by $14.1 million.

b) **Income Tax Expense**

The Corporation's income tax expense differs from the expected income tax expense using the combined federal and provincial rate of 45% as follows:

In thousands of dollars	2000	1999
Expected income tax expense	$ 10,999	$ 9,879
Increase (decrease) in tax expense resulting from:		
Non-taxable portion of capital gains	(372)	(411)
Income not taxable in certain provinces	(2,024)	(2,011)
Other	(125)	59
Large corporations tax	590	709
Actual income tax expense	$ 9,068	$ 8,225

10

OTHER LIABILITIES AND COMMITMENTS

a) The Corporation has a commitment under certain agreements to fund payments currently estimated at $2.5 million annually. The agreement expires in 2083, subject to earlier termination in 2009 under certain circumstances. The Corporation's estimate of this obligation, which is based on assumptions regarding future events and economic circumstances, is included in accounts payable and accrued liabilities. The change in the obligation is included in interest and other revenues.

b) Capital commitments for servicing and other development costs at 31 March 2000 total $8.5 million (1999 – $11.1 million).

11

CONSOLIDATED STATEMENT OF CASH FLOW

The consolidated statement of cash flow for the year ended 31 March 2000 has been restated to conform to the new recommendations of the Canadian Institute of Chartered Accountants, which require the elimination of non-cash investing and financing activities from the statement.

Property acquisitions which were satisfied by the issuance of notes payable in the amount of $11.3 million (1999 – $68.5 million) have been excluded from the financing and investing activities in the consolidated statement of cash flow.

Property disposals satisfied by the issuance of mortgages and secured notes by the Corporation or the assumption of debt by the purchasers in the amount of $6.2 million (1999 – $45.4 million) have been excluded from the financing, investing and operating activities in the consolidated statement of cash flow.

During the year ended 31 March 2000, interest received totalled $3.5 million (1999 – $2.9 million), interest paid amounted to $1.3 million (1999 – $2.0 million) and income taxes paid totalled $6.3 million (1999 – $8.3 million).

12

RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

In addition to transactions previously disclosed, during the year ended 31 March 2000:

a) CLC acquired an interest in real estate properties from Government departments and a Crown corporation for an aggregate purchase price of $11.3 million (1999 - $68.5 million). Consideration for these assets was the issuance of notes payable (Note 5).

b) CLC paid interest totalling $1.3 million (1999 - Nil) to a Crown corporation.

c) PDP received funding from a Government department totalling $5.2 million (1999 - $2.0 million).

d) The Corporation received audit services without charge from the Office of the Auditor General of Canada.

13

FINANCIAL INSTRUMENTS

The carrying values of the Corporation's amounts receivable, notes payable and lease assignment obligation approximate their fair values based on future cash flows discounted at market rates available to the Corporation for financial instruments with similar risk, terms and maturities.

The carrying amounts of short-term investments, accounts payable and accrued liabilities approximate their fair values due to their short-term nature or based on discounted cash flows, as appropriate.

14

COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current year.

Canada
Mortgage
and
Housing
Corporation

FINANCIAL STATEMENTS

For the Year Ended 31 December 1999

Management's Responsibility for Financial Reporting

CMHC management is responsible for establishing and maintaining a system of books, records, internal controls and management practices to provide reasonable assurance that: reliable financial information is produced; the assets of the Corporation are safeguarded and controlled; the transactions of the Corporation are in accordance with the relevant legislation, regulations and by-laws of the Corporation; the resources of the Corporation are managed efficiently and economically; and the operations of the Corporation are carried out effectively.

Management is also responsible for the integrity and objectivity of the financial statements of the Corporation. The accompanying financial statements for the year ended 31 December 1999 were prepared in accordance with generally accepted accounting principles in Canada. The financial information contained elsewhere in this report is consistent with that in the financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee, which includes a majority of members who are not officers of the Corporation. The Committee meets from time to time with management, internal audit staff, and independent external auditors to review the manner in which these groups are performing their responsibilities and to discuss auditing, internal controls and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditors and has submitted its report to the Board of Directors which has approved the financial statements.

The financial statements have been audited by the joint external auditors, Jean-Guy Poulin, CA, of the firm Mallette Maheu, and L. Denis Desautels, FCA, Auditor General of Canada. Their report offers an independent opinion of the financial statements to the Minister of Public Works and Government Services.

Marc Rochon
President and Chief Executive Officer

Bill Mulvihill
Vice-President, Corporate Services
and Chief Financial Officer

AUDITORS' REPORT

To the Minister of Public Works
And Government Services

We have audited the balance sheets of the Canada Mortgage and Housing Corporation for the Corporate Account and the Insurance and Guarantee Funds as at 31 December 1999, and the related statements of operations and reserve fund, operations and surplus, and cash flows, and the Minister's Account statement of expenses recoverable for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 December 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied, after giving retroactive effect to the change in the method of accounting for gains and losses on investments held in the Insurance and Guarantee Funds as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Mortgage and Housing Corporation Act*, the *National Housing Act* and the by-laws of the Corporation.

L. Denis Desautels, FCA
Auditor General of Canada

Jean-Guy Poulin, CA
Mallette Maheu
General Partnership
Associated with Arthur Andersen

Ottawa, Canada
23 February 2000

CORPORATE ACCOUNT

BALANCE SHEET
AS AT 31 DECEMBER

in millions of dollars

Assets	**notes**	**1999**	**1998**
Loans and Investments	4	**16 388**	16 306
Cash and Investment in Securities	16	**615**	539
Securities Purchased Under Resale Agreements		**373**	214
Due from the Minister	5	**238**	252
Accounts Receivable		**157**	255
Business Premises and Equipment	6	**57**	55
Deferred Recoveries from the Minister		**40**	151
Other Assets		**40**	26
Future Income Taxes to Recover	11	**13**	20
		17 921	17 818
Liabilities			
Capital Market Borrowings	7	**10 958**	10 673
Borrowings from the Government of Canada	7	**6 215**	6 418
Securities Sold But Not Yet Purchased		**374**	-
Accounts Payable and Accrued Liabilities	5	**305**	341
Obligation Under Capital Lease	8	**27**	29
Due to the Receiver General for Canada		**6**	85
Securities Sold Under Repurchase Agreements		**-**	214
Due to Insurance and Guarantee Funds		**-**	17
		17 885	17 777
Equity			
Capital Authorized and Fully Paid by the Government of Canada		**25**	25
Reserve Fund	9	**11**	16
		36	41
		17 921	17 818

The accompanying notes are an integral part of these financial statements.

CORPORATE ACCOUNT

STATEMENT OF OPERATIONS AND RESERVE FUND
YEAR ENDED 31 DECEMBER

in millions of dollars

	notes	**1999**	**1998**	**1997**
Interest Earned	24	**1 252**	1 261	1 199
Interest Expense	24	**(1 235)**	(1 237)	(1 163)
Net Interest Income		**17**	24	36
Real Estate Sales	24	**11**	62	25
Cost of Real Estate Sold		**(9)**	(61)	(11)
Holding Costs		**(6)**	(3)	(9)
Gain (Loss) on Real Estate		**(4)**	(2)	5
Other Income		**3**	5	2
Income before Operating Expenses		**16**	27	43
Operating Expenses	10	**(19)**	(23)	(24)
Income (Loss) before Taxes		**(3)**	4	19
Taxes	11			
Current		**5**	4	(15)
Future		**(7)**	(7)	7
		(2)	(3)	(8)
Net Income (Loss)		**(5)**	1	11
Reserve Fund, Beginning of Year		**16**	15	4
Reserve Fund, End of Year		**11**	16	15

The accompanying notes are an integral part of these financial statements.

CORPORATE ACCOUNT

STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER

in millions of dollars

	note	1999	1998	1997
Cash Flows Provided by (Used in) Operating Activities				
Net Income (Loss)		**(5)**	1	11
Add (Deduct)				
Amortization		**3**	5	5
Future Income Taxes to Recover		**7**	7	(7)
		5	13	9
Changes in				
Due to/from				
the Receiver General for Canada		**(79)**	71	(10)
Insurance and Guarantee Funds		**(17)**	6	(11)
the Minister		**14**	(65)	91
Accounts Receivable		**26**	(13)	(30)
Accounts Payable and Accrued Liabilities		**(36)**	(22)	40
Accrued Interest Payable		**50**	57	54
Accrued Interest Receivable		**9**	3	3
Other Assets		**(13)**	(12)	1
		(41)	38	147
Cash Flows Provided by (Used in) Investment Activities				
Loans and Investments				
Repayments		**551**	464	564
Additions		**(642)**	(1 320)	(1 867)
Investment in Securities				
Sales and Maturities		**10 946**	8 331	11 587
Purchases		**(10 727)**	(8 439)	(11 698)
Change in Deferred Recoveries from the Minister		**111**	25	77
Additions in Business Premises and Equipment		**(5)**	1	(4)
		234	(938)	(1 341)
Cash Flows Provided by (Used in) Financing Activities				
Repayments of Borrowings from the Government of Canada		**(213)**	(413)	(257)
Capital Market Borrowings				
Issues		**6 499**	12 499	23 196
Repayments		**(6 182)**	(11 282)	(21 553)
Repayment of Obligation Under Capital Lease		**(2)**	(2)	(2)
		102	802	1 384
Increase (Decrease) in Cash and Cash Equivalents		**295**	(98)	190
Cash and Cash Equivalents	16			
Beginning of Year		**320**	418	228
End of Year		**615**	320	418

The accompanying notes are an integral part of these financial statements.

MINISTER'S ACCOUNT

STATEMENT OF EXPENSES RECOVERABLE
YEAR ENDED 31 DECEMBER

in millions of dollars

Expenses Recoverable	**notes**	**1999**	**1998**	**1997**
Grants and Contributions		**1 822**	1 767	1 822
Operating Expenses	10	**58**	70	69
Fees Paid to Delivery Agents		**6**	4	9
Expenses Recoverable	5	**1 886**	1 841	1 900

The accompanying notes are an integral part of these financial statements.

INSURANCE AND GUARANTEE FUNDS

BALANCE SHEET
AS AT 31 DECEMBER

in millions of dollars

	notes	1999	1998
Assets	12		**(Restated note 3)**
Investment in Securities	16	**3 880**	3 222
Real Estate Inventory		**186**	223
Future Income Taxes to Recover	11	**55**	57
Mortgages		**4**	15
Securities Purchased Under Resale Agreements		**-**	684
Due from Corporate Account		**-**	17
Current Taxes Receivable		**-**	15
		4 125	4 233
Liabilities			
Unearned Premiums and Guarantee Fees	13	**2 684**	2 417
Provision for Claims	13	**732**	836
Taxes Payable		**86**	-
Deferred Gains on Disposal of Securities	16	**62**	39
Accounts Payable and Accrued Liabilities		**53**	70
Securities Sold Under Repurchase Agreements		**-**	684
		3 617	4 046
Surplus			
Unappropriated		**140**	177
Appropriated	14	**368**	10
		508	187
		4 125	4 233

The accompanying notes are an integral part of these financial statements.

INSURANCE AND GUARANTEE FUNDS

STATEMENT OF OPERATIONS AND SURPLUS
YEAR ENDED 31 DECEMBER

in millions of dollars

	notes	1999	1998	1997
Revenues	12		**(Restated note 3)**	**(Restated note 3)**
Earned Premiums and Guarantee Fees	13	**582**	498	425
Application Fees		**49**	53	55
Income from Investments	3	**241**	207	177
Other		**2**	4	1
		874	762	658
Expenses				
Loss on Claims		**329**	358	424
Operating Expenses	10	**97**	105	147
Government of Canada Fee	24	**24**	23	12
Adjustment to Provision for Claims		**(97)**	16	97
		353	502	680
Income (Loss) before Taxes		**521**	260	(22)
Taxes	11			
Current		**198**	111	14
Future		**2**	(11)	(21)
		200	100	(7)
Net Income (Loss)		**321**	160	(15)
Surplus				
Unappropriated				
Balance, Beginning of Year		**201**	37	48
Change in Accounting Policy	3	**(24)**	(10)	(6)
Restated Balance, Beginning of Year		**177**	27	42
Transferred to Appropriated		**(358)**	(10)	-
Balance, End of Year		**140**	177	27
Appropriated	14			
Balance, Beginning of Year		**10**	-	-
Transferred from Unappropriated		**358**	10	-
Balance, End of Year		**368**	10	-
Total Surplus, End of Year		**508**	187	27

The accompanying notes are an integral part of these financial statements.

INSURANCE AND GUARANTEE FUNDS

STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER

in millions of dollars

	notes 12	1999	1998	1997
Cash Flows Provided by (Used in) Operating Activities				
Premiums and Guarantee Fees Received		**849**	812	788
Application Fees Received		**49**	53	55
Investment Income Received		**292**	216	174
Net Claims		**(280)**	(289)	(374)
Government of Canada Fee	24	**(35)**	-	-
Operating Expenses Paid		**(112)**	(116)	(116)
Taxes Paid		**(97)**	(121)	(16)
Other		**1**	(34)	(29)
		667	521	482
Cash Flows Provided by (Used in) Investment Activities				
Investment in Securities				
Sales and Maturities		**1 565**	4 577	5 717
Purchases		**(2 249)**	(5 092)	(6 210)
		(684)	(515)	(493)
Increase (Decrease) in Due from (to) Corporate Account		**(17)**	6	(11)
Due from (to) Corporate Account				
Beginning of Year		**17**	11	22
End of Year		**-**	17	11

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 1999

1. BASIS OF PRESENTATION

Canada Mortgage and Housing Corporation was incorporated as a Crown corporation 1 January 1946. The Corporation is regulated by the *Canada Mortgage and Housing Corporation Act* (CMHC Act). The Corporation's mandate, as stated in the *National Housing Act* (NHA), is "to promote the construction of new houses, the repair and modernization of existing houses and the improvement of housing and living conditions." The Corporation is for all purposes an agent of Her Majesty in the right of Canada.

Bill C-66, the Act to amend the NHA and the CMHC Act, was passed by Parliament and received Royal Assent on 17 June 1999. The amendments have simplified the NHA by removing unnecessary restrictions, and enable CMHC to respond quickly to the needs of Canadians and to opportunities in the loan insurance workplace. In addition, the Corporation will be better able to expand export opportunities for Canada's housing industry.

The Corporation has three separate responsibilities under its mandate and maintains separate accounting records for each. Separate financial statements are presented in order to preserve the separate identities of the assets, liabilities, capital, reserve fund, surpluses or deficits.

Together, these statements constitute the financial statements of the Corporation and reflect all of the transactions of the Corporation for the year ended 31 December 1999.

In total, the Corporation manages:

in millions of dollars

	1999	**1998**
Assets	**22 046**	22 034
Liabilities	**21 502**	21 806
Portion Payable to the Government of Canada	**6 215**	6 418
Minister's Account Expenses Recoverable from Parliamentary Appropriations	**1 886**	1 841
Operating Expenses	**174**	198

Corporate Account

The Corporation makes loans and other investments under various provisions of the *National Housing Act*, develops and sells land holdings, and provides services in housing related areas. Funding is provided by borrowings from the Government of Canada and capital markets.

Minister's Account

The Corporation administers housing programs under provisions of the *National Housing Act* with funding provided by the Government of Canada through annual Parliamentary appropriations. The Corporation is reimbursed for subsidies and losses relating to these programs in addition to the related operating expenses.

Insurance and Guarantee Funds

The Corporation administers insurance and guarantee funds under provisions of the *National Housing Act*. The Mortgage Insurance Fund provides insurance against borrower default on residential mortgages. The Mortgage-Backed Securities Guarantee Fund guarantees the timely payment of the principal and interest for investors of securities based on NHA insured mortgages.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with generally accepted accounting principles (GAAP) in Canada. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

General Accounting Policies

The following accounting policies apply to the financial statements of the Corporate Account and the Insurance and Guarantee Funds.

A. Securities Purchased Under Resale and Sold Under Repurchase Agreements

Securities purchased under resale agreements consist of the purchase of a security, normally a government bond, with the commitment by the Corporation to resell the security to the original seller at a specified price. Securities sold under repurchase agreements consist of the sale of a security with the commitment by the Corporation to repurchase the security at a specified price. Securities purchased under resale and sold under repurchase agreements are carried at cost on the balance sheet. The difference between the sale price and the agreed repurchase price on a repurchase agreement and the difference between the cost of the purchase and the predetermined proceeds to be received on a resale agreement are recorded over the term of the agreement. Where the Corporation has an obligation to deliver securities which it did not own at the time of the sale, they are recorded as securities sold but not yet purchased at an amount equal to the cost of the sale.

B. Income Taxes

The Corporation is a prescribed Crown corporation for tax purposes. While most activities are subject to federal income tax under the *Income Tax Act*, the Corporation is not subject to provincial income taxes on its own activities.

Income taxes are accounted for using the future income taxes method. Accordingly, future income taxes are recognized on assets and liabilities with temporary taxable differences. The income tax rates used to measure future tax assets and liabilities are those rates that, at the balance sheet date, are expected to apply when the assets are realized or the liabilities are settled.

Charges to tax expense include federal income tax and large corporations tax.

Corporate Account

The following accounting policies apply to the financial statements of the Corporate Account.

C. Loans and Investments

i. Loans

Loans are carried at cost plus accrued interest. As they are intended to be held until maturity, their carrying value is not adjusted to reflect any temporary decline in fair value.

Losses on insured loans are recoverable through the Mortgage Insurance Fund; losses on uninsured loans are recoverable from the Government of Canada through the Minister's Account.

The Corporate Account is assured full collection of principal and interest and will not incur any losses on these loans due to uncollectibility. Consequently, no loss provisions for loan impairment are made.

If loans contain forgiveness clauses, such forgiveness is recorded and recovered from the Government of Canada through the Minister's Account when the loans are advanced.

Loans under certain programs contain interest rate clauses that are lower than the related Borrowings from the Government of Canada. Accordingly, related interest earnings losses are recoverable from the Government of Canada through the Minister's Account.

ii. Federal-Provincial Agreements

Loans and investments in housing projects are governed by various cost-sharing agreements and the more recent social housing agreements with the provinces and territories.

Losses on loans and investments in housing projects covered by the new social housing agreements are fully guaranteed by the provinces and territories. The Corporation's portion of losses on cost shared projects are recoverable from the Government of Canada through the Minister's Account.

The Corporation's share of gains on the sale of land assembly projects are recognized as a Gain on Real Estate.

iii. Real Estate

Real estate is comprised of direct acquisitions and properties acquired through default on uninsured loans.

All real estate is recorded at acquisition cost plus any modernization and improvement costs and other related costs incurred.

Holding costs, including interest, for properties acquired as the result of default on uninsured loans, and for directly acquired social housing projects, are fully capitalized. Gains or losses on the disposal of these properties are paid to or recovered from the Government of Canada through the Minister's Account. All net operating losses, including amortization of buildings calculated on a straight-line basis over the remaining term of the corresponding debt, are recovered from the Government of Canada through the Minister's Account.

For all other properties, holding costs, including interest, are capitalized up to market value after which the costs are expensed.

D. Investment in Securities

The Corporation generally matches the term of its assets and liabilities within tolerances set out by interest rate risk limits. Gains and losses that result from the sale of investments related to funding activities are deferred and amortized on a straight-line basis to Interest Expense over the term of the most recent debt issue. Deferred gains and losses are included in Other Assets.

E. Deferred Recoveries from the Minister

Expenditures to modernize and improve certain properties are recovered from the Government of Canada through the Minister's Account over a period not exceeding ten years.

F. Pension Cost and Obligation

The Corporation provides pensions based on length of service and the average earnings of the best five-year period as classified under defined benefit retirement pension arrangements.

The cost of pension benefits earned by employees is determined using the projected benefit method of actuarial valuation with projected salary increases where appropriate, prorated on services and charged to operations as services are rendered. This cost reflects management's best estimate of the pension fund's expected investment yields, and of salary escalations, mortality of members, terminations and ages at which members will retire. Adjustments arising from plan amendments, experience gains and losses, and changes in assumptions are amortized over the estimated average remaining service life of the employee group.

The difference between the accumulated pension expense and the employer's contributions to the Pension Fund, the deferred pension liability, is reflected in the Balance Sheet under Accounts Payable and Accrued Liabilities.

G. Post-Retirement Benefits

Post-retirement benefits, other than pension benefits, are expensed as incurred and are included in Operating Expenses.

H. Interest Earned

Interest Earned arising from Loans and Investments, Cash and Investment in Securities, and Deferred Recoveries from the Minister is recognized on an accrual basis up to the date that the asset is retired. Certain interest revenue is obtained through the Minister's Account.

I. Capital Market Borrowing Costs

Issuance costs on Capital Market Borrowings are deferred and amortized as Interest Expense on a straight-line basis over the term of the debt.

Premiums and discounts on Capital Market Borrowings are deferred and amortized on a constant yield basis over the term of the debt.

J. Amortization

Business Premises and Equipment are amortized on a diminishing balance basis over the estimated useful life of the asset. Leasehold improvements are amortized on a straight-line basis.

K. Derivative Financial Instruments

The Corporation enters into interest rate and foreign exchange transactions in order to manage its exposure to both interest rate and currency fluctuations. The Corporation uses accrual accounting for derivative transactions used for its own on-balance sheet asset and liability management purposes. Gains and losses resulting from termination of these contracts are deferred and included in Other Assets and amortized on a straight-line basis to Interest Earned or Interest Expense over the term of the underlying exposure.

Insurance and Guarantee Funds

The following accounting policies apply to the financial statements of the Insurance and Guarantee Funds.

L. Investment in Securities

Investments are purchased with the original intention to hold them to maturity, and are carried at amortized cost plus accrued interest. Investments are written down to their fair value when declines in value are other than temporary. Premiums and discounts on investments are amortized on a constant yield basis to income over the period to maturity of the related investments. Losses realized on write downs to reflect other than temporary impairment in value are included in Interest Earned from the investments in the year in which they occur.

Since these investments are acquired to meet the long-term obligations of the Insurance and Guarantee Funds, gains and losses from disposals of fixed income investments are deferred and amortized over the remaining life of the original investment to reflect the long-term yield from such investments as income each year.

M. Real Estate Inventory

Real Estate acquired upon the payment of a claim resulting from a loan default is carried at the lower of cost or net realizable value. Net realizable value is calculated as the current market value of the property, as determined by the Corporation, less the discounted value of estimated holding and disposal costs. Amortization is not recorded on the real estate.

N. Mortgages

Mortgages are carried at cost less a provision for estimated risk of default.

O. Provision for Claims

The provision for claims represents an estimate for expected claims and related expenses, net of expected sale receipts, for defaults that have occurred on or before the balance sheet date. The provision takes into consideration the time value of money and includes an explicit provision for adverse deviation in accordance with accepted actuarial practice.

P. Premium Revenue and Unearned Premiums

The Corporation earns premium revenue over the period covered by each individual contract based on factors developed by the Office of the Superintendent of Financial Institutions for mortgage insurance businesses. These factors reflect the long-term pattern for default risk by age of a mortgage insurance policy.

Unearned premiums represent the portion of premiums written related to the unexpired portion of the policy at year end. This provision is for claims that have not yet occurred and therefore, covers the period from the balance sheet date to the date of default.

Q. Guarantee Fees

Guarantee fees are deferred and are taken into income over the term of the related Mortgage-Backed Security issue on a straight-line basis.

R. Application Fees

Application fees are recognized as income when received.

S. Insurance Issuance Costs

Issuance costs are expensed as incurred and are included in Operating Expenses.

3. CHANGE IN ACCOUNTING POLICY

The Insurance and Guarantee Funds acquire investments to meet future obligations arising from insurance and guarantee contracts. Since the term of the contracts is long, investments are acquired with the intention of holding them to maturity.

In 1999, the Corporation changed its method of accounting for gains and losses realized on the disposal of fixed income investments held by the Insurance and Guarantee Funds. Gains and losses from such disposals are now deferred and amortized over the remaining life of the original investment in order to reflect the long-term yield from such investments as income each year. Previously, the gains and losses on disposal were included in income in the year in which they were realized. This change in accounting policy has been applied retroactively.

The effect of this change has been a reduction in the 1997 opening surplus of $6 million after adjusting for the tax effect and the following restatements of the Statement of Operations and Surplus and Balance Sheet of the Insurance and Guarantee Funds.

in millions of dollars

	1999	**1998**	**1997**
Effect on Statement of Operations and Surplus			
Decrease in Income from Investments	**37**	26	10
Amortization of Net Gains	**14**	3	3
Decrease in Income (Loss) before Taxes	**23**	23	7
Decrease in Taxes	**9**	9	3
Decrease in Net Income (Loss)	**14**	14	4
Effect on Balance Sheet			
Deferred Gains on Disposal of Securities	**62**	39	16

4. LOANS AND INVESTMENTS

in millions of dollars

	1999	1998
Loans	**5 100**	6 888
Federal-Provincial Agreements		
Loans	**9 687**	7 766
Investments in Housing Projects	**1 552**	1 591
Land Assembly Projects	**15**	13
	11 254	9 370
Real Estate		
Direct Acquisitions	**13**	25
Other	**21**	23
	34	48
Total Loans and Investments	**16 388**	16 306

Due to the federal initiative to transfer responsibility for social housing programs to the provinces and territories, nine agreements are in effect. As a result, losses related to the loans and investments covered by these social housing agreements, 40% (1998 - 13%) are recoverable from the respective provinces and territories.

Losses incurred on the remainder of the loans and investments portfolio are recoverable either from the Mortgage Insurance Fund, 30% (1998 - 52%), or the Minister's Account, 30% (1998 - 35%).

Of the total loans and investments portfolio, 92% (1998 - 91%) relates to social housing programs, the majority of which are supported with subsidies from the Minister's Account.

The amount of interest capitalized on real estate was $5 million (1998 - $8 million). Holding costs of $6 million (1998 - $3 million) on land acquired directly by the Corporation have been charged to the Corporate Account.

The following table provides the maturity structure of the loans:

in millions of dollars

2000	2001	2002	2003	2004	Thereafter	Total
123	22	19	20	20	14 583	14 787

5. DUE FROM THE MINISTER

in millions of dollars

	1999	1998	1997
Due from the Minister, Beginning of Year	**252**	187	278
Expenses Recoverable	**1 886**	1 841	1 900
Recovered from the Minister	**(1 900)**	(1 776)	(1 991)
Due from the Minister, End of Year	**238**	252	187

Expenses incurred but not yet recovered from the Government of Canada are recorded as Due from the Minister in the Corporate Account. This receivable is short-term and is non interest bearing.

The Corporation reports the cost of programs administered under the Minister's Account against an annual appropriation from the Government of Canada for the Government's fiscal year (1 April to 31 March). For the Government's 1999/2000 fiscal year, the annual appropriation for the Minister's Account is $1 889 million (1998/1999 - $1 933 million).

Due from the Minister includes $184 million (1998 - $243 million) which is also included in Accounts Payable and Accrued Liabilities in the Corporate Account. When paid, recovery will be made from the Government of Canada through the Minister's Account.

6. BUSINESS PREMISES AND EQUIPMENT

in millions of dollars

	Amortization Rate	Cost	Accumulated Amortization	1999 Net Book Value	1998 Net Book Value
Buildings	4% or 5%	75	24	**51**	47
Leasehold Improvements	20%	7	5	**2**	3
Equipment	8%, 20% or 30%	40	36	**4**	5
Total		122	65	**57**	55

A building under capital lease at a cost of $30 million and a net book value of $21 million (1998 - $22 million) is included in Buildings.

Amortization in 1999 was $3 million (1998 - $5 million, 1997 - $5 million).

7. BORROWINGS

The Corporation borrows from the Government of Canada and from capital markets under provisions of the *Canada Mortgage and Housing Corporation Act* and the *National Housing Act* to finance loans and investments.

The Corporation has authority to borrow a maximum of $15 billion from sources other than the Government.

in millions of dollars

	Interest Rate	Term	1999	1998
Government of Canada	9.0%	21.7 years	**6 215**	6 418
Capital Market				
Commercial Paper	5.0%	60 days	**1 714**	1 125
Medium-term Borrowings	6.2%	2.6 years	**9 244**	9 548
Total			**17 173**	17 091

Included in these values is $162 million (1998 - $184 million) of accrued interest.

Capital market medium-term borrowings include US denominated debt. This debt is carried at the year end exchange rate. All foreign exchange exposure is fully hedged through the use of cross currency swaps, for both interest and principal payments. Swap contracts in place transform the US denominated debt into an expected net obligation in Canadian dollars at the exchange rate in place at the time of issuance of the debt.

The foreign denominated medium-term borrowings are:

in millions of dollars

	1999	1998
US Dollar Obligations	**800**	800
US Dollar Obligations Translated to Canadian Dollars:		
Based on Rate at Issuance	**1 103**	1 103
Based on Year End Rate	**1 155**	1 227

The following table provides the maturity structure of Corporate borrowings:

in millions of dollars

	Government of Canada	Capital Market Commercial Paper	Capital Market Medium-term Borrowings	Total
Accrued Interest	74	-	88	162
2000	217	1 714	1 931	3 862
2001	229	-	1 263	1 492
2002	218	-	2 145	2 363
2003	245	-	1 882	2 127
2004	187	-	1 935	2 122
Thereafter	5 045	-	-	5 045
Total	6 215	1 714	9 244	17 173

8. OBLIGATION UNDER CAPITAL LEASE

The Corporation financed additions and improvements to the National Office building in 1990 with a long-term lease that is accounted for as a capital lease. The Corporation assumes ownership of the building for a cost of one dollar at the termination of the lease in 2015.

The annual lease payments are $5 million for the first 10 years and $4 million for the remaining 15 years.

The minimum lease payments are:

in millions of dollars

	Leasehold Improvement (10 Year Lease)	Building (25 Year Lease)	Total
Interest Rate	11.57%	11.77%	
2000 to 2004	1	18	19
2005 to 2015	-	39	39
Total future minimum lease payments	1	57	58
Less interest	-	31	31
Present value of minimum lease payments	1	26	27

Interest expense in 1999 was $3 million (1998 - $3 million, 1997 - $4 million).

9. RESERVE FUND OF THE CORPORATE ACCOUNT

The Reserve Fund is limited by Order-in-Council to $25 million. As at 31 December 1999, the reserve fund was $11 million (1998 - $16 million).

10. OPERATING EXPENSES

The operating expenses of the Corporation are allocated on the basis of staff utilization as follows:

in millions of dollars

	1999		1998		1997	
		%		%		%
Corporate Account	**19**	**10.9**	23	11.8	24	10.0
Minister's Account	**58**	**33.3**	70	35.3	69	28.8
Insurance and Guarantee Funds	**97**	**55.8**	105	52.9	147	61.2
Total	**174**	**100.0**	198	100.0	240	100.0

Operating Expenses for 1998 include estimated restructuring costs of $6 million (1997 - $37 million).

11. TAXES

The Corporation's income tax expense includes federal income tax (Tax) levied at 38% and large corporations tax (LCT) on certain capital amounts levied at 0.225%.

Taxes are:

in millions of dollars

	1999			1998			1997		
	Tax	**LCT**	**Total**	**Tax**	**LCT**	**Total**	**Tax**	**LCT**	**Total**
Corporate Account	**2**	**-**	**2**	3	-	3	8	-	8
Insurance and Guarantee Funds	**198**	**2**	**200**	99	1	100	(8)	1	(7)
Total	**200**	**2**	**202**	102	1	103	-	1	1

Tax charges in the Corporate Account reflect a higher tax expense than at the statutory rate of 38%. This is primarily due to the inclusion of $3 million in the tax expense as a result of various Revenue Canada adjustments.

Future Income Taxes to Recover consists of the following temporary differences between the tax basis of assets and liabilities and their carrying amount on the balance sheet.

in millions of dollars

	1999	1998
Corporate Account		
Real Estate Reserve	**13**	11
Expenses Incurred But Not Disbursed	**(2)**	8
Other	**2**	1
Total	**13**	20
Insurance and Guarantee Funds		
Various Reserves	**46**	47
Expenses Incurred But Not Disbursed	**9**	10
Total	**55**	57
Future Income Taxes to Recover	**68**	77

12. INSURANCE AND GUARANTEE FUNDS

The Insurance and Guarantee Funds are comprised of two funds: the Mortgage Insurance Fund and the Mortgage-Backed Securities Guarantee Fund. The Mortgage Insurance Fund provides insurance against borrower default on residential mortgages. The Mortgage-Backed Securities Guarantee Fund guarantees the timely payment of principal and interest for investors of securities based on NHA insured mortgages. The following are the segregated statements of each fund.

INSURANCE AND GUARANTEE FUNDS

BALANCE SHEET
AS AT 31 DECEMBER

in millions of dollars

	Mortgage Insurance Fund		**Mortgage-Backed Securities Guarantee Fund**	
	1999	**1998**	**1999**	**1998**
Assets		**(Restated note 3)**		
Investment in Securities	**3 776**	3 150	**104**	72
Real Estate Inventory	**186**	223	**-**	-
Future Income Taxes to Recover	**55**	57	**-**	-
Mortgages	**4**	15	**-**	-
Due from (to) Corporate Account	**2**	14	**(2)**	3
Securities Purchased Under Resale Agreements	**-**	684	**-**	-
Current Taxes Receivable	**-**	15	**-**	-
	4 023	4 158	**102**	75
Liabilities				
Unearned Premiums and Guarantee Fees	**2 637**	2 386	**47**	31
Provision for Claims	**732**	836	**-**	-
Taxes Payable	**86**	-	**-**	-
Deferred Gains on Disposal of Securities	**62**	39	**-**	-
Accounts Payable and Accrued Liabilities	**53**	70	**-**	-
Securities Sold Under Repurchase Agreements	**-**	684	**-**	-
	3 570	4 015	**47**	31
Surplus				
Unappropriated	**85**	133	**55**	44
Appropriated	**368**	10	**-**	-
	453	143	**55**	44
	4 023	4 158	**102**	75

INSURANCE AND GUARANTEE FUNDS

STATEMENT OF OPERATIONS AND SURPLUS (DEFICIT)
YEAR ENDED 31 DECEMBER

in millions of dollars

	Mortgage Insurance Fund			**Mortgage-Backed Securities Guarantee Fund**		
	1999	**1998 (Restated note 3)**	**1997 (Restated note 3)**	**1999**	**1998**	**1997**
Revenues						
Earned Premiums and Guarantee Fees	**571**	490	417	**11**	8	8
Application Fees	**47**	51	54	**2**	2	1
Income from Investments	**235**	202	173	**6**	5	4
Other	**2**	4	1	**-**	-	-
	855	747	645	**19**	15	13
Expenses						
Loss on Claims	**329**	358	424	**-**	-	-
Operating Expenses	**96**	103	145	**1**	2	2
Government of Canada Fee	**24**	23	12	**-**	-	-
Adjustment to Provision for Claims	**(97)**	16	97	**-**	-	-
	352	500	678	**1**	2	2
Income (Loss) before Taxes	**503**	247	(33)	**18**	13	11
Taxes						
Current	**191**	106	9	**7**	5	5
Future	**2**	(11)	(21)	**-**	-	-
	193	95	(12)	**7**	5	5
Net Income (Loss)	**310**	152	(21)	**11**	8	6
Surplus (Deficit)						
Unappropriated						
Balance, Beginning of Year	**157**	1	18	**44**	36	30
Change in Accounting Policy	**(24)**	(10)	(6)	**-**	-	-
Restated Balance, Beginning of Year	**133**	(9)	12	**44**	36	30
Transferred to Appropriated	**(358)**	(10)	-	**-**	-	-
Balance, End of Year	**85**	133	(9)	**55**	44	36
Appropriated						
Balance, Beginning of Year	**10**	-	-	**-**	-	-
Transferred from Unappropriated	**358**	10	-	**-**	-	-
Balance, End of Year	**368**	10	-	**-**	-	-
Total Surplus (Deficit), End of Year	**453**	143	(9)	**55**	44	36

INSURANCE AND GUARANTEE FUNDS

STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER

in millions of dollars

	Mortgage Insurance Fund			**Mortgage-Backed Securities Guarantee Fund**		
	1999	**1998**	**1997**	**1999**	**1998**	**1997**
Cash Flows Provided by (Used in) Operating Activities						
Premiums and Guarantee Fees Received	**822**	794	774	**27**	18	14
Application Fees Received	**47**	51	54	**2**	2	1
Investment Income Received	**287**	212	171	**5**	4	3
Net Claims	**(280)**	(289)	(374)	**-**	-	-
Government of Canada Fee	**(35)**	-	-	**-**	-	-
Operating Expenses Paid	**(110)**	(114)	(114)	**(2)**	(2)	(2)
Taxes Paid	**(90)**	(116)	(11)	**(7)**	(5)	(5)
Other	**1**	(34)	(29)	**-**	-	-
	642	504	471	**25**	17	11
Cash Flows Provided by (Used in) Investment Activities						
Investment in Securities						
Sales and Maturities	**1 537**	4 473	5 562	**28**	104	155
Purchases	**(2 191)**	(4 974)	(6 046)	**(58)**	(118)	(164)
	(654)	(501)	(484)	**(30)**	(14)	(9)
Increase (Decrease) in Due from (to) Corporate Account	**(12)**	3	(13)	**(5)**	3	2

13. ACTUARIAL VALUATION OF THE MORTGAGE INSURANCE FUND

A. Role of the Appointed Actuary

The actuary is appointed by the management of the Corporation. With respect to preparation of these statements, the actuary is required to carry out a valuation of the policy liabilities of the Mortgage Insurance Fund and to provide an opinion to the Corporation's management regarding their appropriateness at the valuation date. The factors and techniques used in the valuation are in accordance with accepted actuarial practice, applicable legislation and associated regulations. The scope of the valuation encompasses the policy liabilities that consist of a provision for claims on the expired portion of policies and of future obligations on the unexpired portion of policies. In performing the valuation of the liabilities for these contingent future events, which are by their very nature inherently variable, the actuary makes assumptions as to future claim rates, average loss on claims, trends, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies.

The valuation is based on projections of future losses on claims and related expenses. It is certain that the actual future claims will not develop exactly as projected and may in fact vary significantly from the projections. Further, the projections make no provision for new classes of claims categories not sufficiently recognized in the claims database.

B. Projection of September Valuation

The actuarial valuation is produced as of 30 September each year. The Corporation determines provisions for claims and unearned premiums at 31 December using valuation factors taking into account new business, claims and interest for the last quarter.

C. Nature of Provision for Claims

The establishment of the provision for claims for the Mortgage Insurance Fund is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process, influenced by a large variety of factors. These factors include the Corporation's past experience, historical trends in reporting patterns, level of outstanding claims in process, average claim rates (claim frequency), average loss on claims (claim severity) and recent past and projected economic conditions influencing immediate future claim levels.

Other factors include the continually evolving and changing underwriting and claim settlement procedures, actuarial studies, professional experience, the quality of data utilized for projection purposes, economic conditions and public attitudes. Consequently, the process of establishing the provision for claims necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

All provisions are periodically reviewed and evaluated in light of emerging claim experience and changing circumstances. The resulting changes in estimates of the ultimate liability are recorded as adjustments to provisions in the accounting period in which they are determined.

14. APPROPRIATIONS OF SURPLUS

Following direction from Treasury Board, appropriations of surplus are made to establish additional policy reserves based on actuarial factors developed by the Office of the Superintendent of Financial Institutions, as well as for capitalization and potential claims in regard to contaminated lands.

15. INSURANCE AND GUARANTEES IN FORCE

A. Mortgage Insurance Fund

Under Section 11 of the *National Housing Act*, the aggregate outstanding amount of loan insurance policies may not exceed $250 billion. At 31 December 1999, insurance policies in force totaled approximately $187 billion (1998 - $183 billion).

B. Mortgage-Backed Securities Guarantee Fund

Under Section 15 of the *National Housing Act*, the aggregate outstanding amount of principal guarantees may not exceed $250 billion. At 31 December 1999, guarantees in force totaled approximately $28 billion (1998 - $19 billion).

16. CASH AND INVESTMENT IN SECURITIES

Cash and Investment in Securities for the Corporate Account is comprised of the following:

in millions of dollars

	1999	**1998**	**1997**
Cash and Cash Equivalents	**615**	320	418
Investment in Securities	**-**	219	111
Total	**615**	539	529

The following table shows the term to maturity of Investment in Securities for both the Corporate Account and the Insurance and Guarantee Funds. Amounts include accrued interest of $60 million (1998 - $82 million).

in millions of dollars

	Term to Maturity					
	Within 1 Year	**1 to 3 Years**	**3 to 5 Years**	**Over 5 Years**	**1999**	**1998**
Corporate Account						
Securities Issued or Guaranteed by:						
Canada	-	-	-	-	**-**	219
Other	-	-	-	-	**-**	-
Total	-	-	-	-	**-**	219
Insurance and Guarantee Funds						
Securities Issued or Guaranteed by:						
Canada	72	528	497	1 185	**2 282**	2 257
Provinces	14	177	128	568	**887**	609
Other	9	111	252	339	**711**	356
Total	95	816	877	2 092	**3 880**	3 222

Net cumulative unamortized losses of $7 million (1998 - $2 million gain) resulting from the sale of Corporate Account investments have been deferred and are included in Other Assets. The gains/losses result from those occasions where the Corporation may purchase or sell investments, for the purpose of hedging rate movements, when funding and lending activities do not coincide. Gains/losses are amortized over the term of the most recent debt issue.

Investment sales in the Insurance and Guarantee Funds during 1999 resulted in a gain of $37 million (1998 - $26 million, 1997 - $10 million) that has been deferred. Cumulative deferred gains now totaling $62 million (1998 - $39 million) will be brought into income as follows:

in millions of dollars

	2000	**2001**	**2002**	**2003**	**2004**	**Thereafter**	**Total**
Amortization of Net Gains	16	14	12	10	8	2	62

17. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value is derived from price movements in one or more underlying securities, indices or other instruments or derivatives. The Corporation uses derivatives in connection with its risk management activities.

Derivative contracts are used to adjust exposure to interest rate risk and foreign exchange risk by modifying the repricing or maturity characteristics of existing and/or anticipated assets and liabilities. These contracts can include:

> Interest rate swaps to hedge mismatches in the timing of interest payments and receipts and/or to hedge reinvestment and refinancing risk.

> Cross currency swaps to hedge foreign currency exposure arising from foreign denominated debt.

The table below provides the notional amounts of the Corporation's derivative transactions. Notional amounts, which are off-balance sheet, serve as a point of reference for calculating payments and do not represent the fair value, or the potential gain or loss associated with the credit or market risk of such instruments.

Notional amounts of derivatives by term to maturity
in millions of dollars

	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	1999	1998
Interest Rate Swaps	3 255	3 415	6 249	173	**13 092**	11 688
Cross Currency Swaps	410	693	-	-	**1 103**	1 103
Total	3 665	4 108	6 249	173	**14 195**	12 791

18. MARKET RISK

Market risk refers to the risk of the Corporation incurring a financial loss as a result of adverse fluctuations in interest rates (interest rate risk) and/or foreign exchange rates (foreign exchange risk).

Interest Rate Risk — Corporate Account

The table below provides details regarding the Corporation's exposure to interest rate risk. On and off-balance sheet financial instruments are reported based on the earlier of their contractual repricing dates or maturity dates. Effective interest rates have been disclosed where applicable. The effective rates shown represent historical rates for fixed rate instruments carried at amortized cost and rates to reset for floating rate instruments.

Carrying amount by earlier of contractual repricing or maturity date
in millions of dollars

	Within 1 Year	1 to 5 Years	Over 5 Years	Non Interest Sensitive	1999	1998
Corporate Account						
Assets						
Loans and Investments	2 490	7 613	5 913	372	**16 388**	16 306
Effective Interest Rate	8.26%	6.25%	8.54%			
Cash and Investment in Securities	615	-	-	-	**615**	539
Effective Interest Rate	4.68%	-	-			
Securities Purchased Under Resale Agreements	373	-	-	-	**373**	214
Effective Interest Rate	6.04%	-	-			
Liabilities						
Capital Market Borrowings	3 647	7 257	-	54	**10 958**	10 673
Effective Interest Rate	6.40%	5.75%	-			
Borrowings from the Government of Canada	217	884	5 040	74	**6 215**	6 418
Effective Interest Rate	9.96%	8.45%	9.04%			
Securities Sold But Not Yet Purchased	374	-	-	-	**374**	-
Effective Interest Rate	6.06%	-	-			
Obligation Under Capital Lease	1	-	26	-	**27**	29
Effective Interest Rate	11.57%	-	11.77%			
Securities Sold Under Repurchase Agreements	-	-	-	-	**-**	214
Effective Interest Rate	-	-	-			
Off-Balance Sheet						
Derivative Financial Instruments						
Receivable Position	3 677	7 129	-	3 389	**14 195**	12 791
Effective Interest Rate	6.30%	5.81%	-			
Payable Position	3 965	6 841	-	3 389	**14 195**	12 791
Effective Interest Rate	6.72%	5.65%	-			

In 1991, the Corporation's right to prepayment without penalty on its borrowings from the Government of Canada was discontinued. These borrowings fund loans made by the Corporation under various sections of the *National Housing Act*, some of which have prepayment without penalty privileges and some of which have contractual repricing options. This transfer of interest rate risk exposed the Corporation to losses and continues to expose the Corporation to potential losses in future years which could be material in relation to the Corporate Account Reserve Fund.

Prepayment Risk

Prepayment risk has been estimated for programs representing approximately 60% of the total loan portfolio and is under evaluation for the remainder. Although highly unlikely, based upon management's estimates and prevailing interest rates, the annual losses which could result from this transfer of interest rate risk is a maximum of $15 million per annum over a 25 year time horizon. This risk is being mitigated by a short-term funding strategy and removal of prepayment optionality from some programs. Historical prepayment activities have been on a loan by loan basis. Since the funds received from these prepayments are utilized as part of corporate cash management, it is not reasonable to quantify the extent of prepayment losses in the current year.

Refinance Risk

For those loans which have been previously renegotiated or repriced, the estimated average impact on interest margin is a $25 million reduction per year ($24 million for 1998) over a 38 year average horizon. Potential losses due to refinancing in future years are expected to be immaterial.

Interest Rate Risk — Insurance and Guarantee Funds

The interest rate risk exposure of the investment portfolios of the Insurance and Guarantee Funds is managed in relation to the existing liability profile associated with each fund as well as by structuring the investment maturities of the portfolios similar to a diversified fixed income index.

The table below provides details regarding the Insurance and Guarantee Funds exposure to interest rate risk.

Carrying amount by earlier of contractual repricing or maturity date
in millions of dollars

	Within 1 Year	1 to 5 Years	Over 5 Years	Non Interest Sensitive	1999	1998
Insurance and Guarantee Funds						
Assets						
Investment in Securities	95	1 693	2 092	-	**3 880**	3 222
Effective Interest Rate	6.09%	6.28%	6.56%			
Mortgages	4	-	-	-	**4**	15
Effective Interest Rate	8.56%	-	-			
Securities Purchased Under Resale Agreements	-	-	-	-	**-**	684
Effective Interest Rate	-	-	-			
Liabilities						
Securities Sold Under Repurchase Agreements	-	-	-	-	**-**	684
Effective Interest Rate	-	-	-			

Foreign Exchange Risk

All currency exposure arising from foreign denominated debt issuance is hedged in accordance with the Corporation's policy to avoid any and all foreign exchange exposure.

19. CREDIT RISK

Credit risk is the risk of loss resulting from default by a counterparty, typically as a consequence of its insolvency. The Corporation incurs credit risk from its lending, investing and hedging activities. Credit exposure refers to fair value owed to the Corporation, plus an estimate for potential exposure where applicable.

Investment in Securities

The Corporation mitigates its credit risk through the use of policies which include the diversification of its investment in securities and the establishment of counterparty credit limits against which positions are monitored on an ongoing basis. An independent credit risk management function exists and evaluates counterparties as to creditworthiness and compliance with exposure limits.

The table below shows the distribution of credit exposure. The exposure is divided into short-term (less than one year) and long-term (greater than one year). All of the short-term exposure, 100%, is rated 'R-1 high' or 'AAA' and the majority of long-term exposure, 87%, is to 'AAA' and 'AA' rated counterparties.

Credit exposure
in millions of dollars

	1999	**1998**
Short-term	**645**	409
Long-term	**3 772**	3 595
Total	**4 417**	4 004

The Corporation's credit risk related to concentration of investments is diversified as follows:

Credit exposure by sector breakdown
in millions of dollars

	1999	**1998**
Canada and Guaranteed	**2 455**	2 690
Provinces	**855**	645
Schedule A Banks	**134**	151
Other Banks and Financial Institutions	**73**	71
Commercial Institutions	**297**	77
Securitized Vehicles/Derivative Product Companies	**603**	370
Total	**4 417**	4 004

Derivative Financial Instruments

The credit risk associated with derivatives is normally a fraction of the notional amount of the derivative instrument. For internal risk management purposes, the credit risk arising from a derivative transaction is considered to be the estimated fair value plus an estimate for potential exposure. The Corporation subjects its derivative related credit risks to the same policies that it uses for managing other transactions that create credit exposure including a diversification of its exposure across various financial institution counterparties.

The table below shows the credit exposure of the Corporation's derivatives by term to maturity.

Credit exposure of derivatives by term to maturity
in millions of dollars

	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	1999	1998
Interest Rate Swaps	88	136	282	4	**510**	484
Cross Currency Swaps	98	178	-	-	**276**	420
Total	186	314	282	4	**786**	904

Where legally enforceable through contractual arrangements such as International Swaps and Derivatives Association master swap agreements, various transaction exposures to counterparties may be netted to derive the Corporation's overall net credit exposures to counterparties. The table below shows the Corporation's fair value of derivatives, before and after netting.

Fair value of derivatives by counterparty credit rating
in millions of dollars

	AAA	AA	A	1999	1998
Fair Value before Impact of Netting	10	37	1	**48**	277
Impact of Netting	-	(17)	(1)	**(18)**	(10)
Fair Value after Impact of Netting	10	20	-	**30**	267

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out below represent the fair values of on and off-balance sheet financial instruments of the Corporation using the valuation methods and assumptions as referred to below. Fair value amounts are designed to represent estimates of the amounts at which instruments could be exchanged in a current transaction between willing parties.

As many of the Corporation's financial instruments lack an available trading market, fair values are based on estimates using present value and other valuation techniques. These techniques are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Due to the use of subjective judgment and uncertainties, the fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

in millions of dollars	1999		1998	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Corporate Account				
Assets				
Loans and Investments	**16 388**	**17 347**	16 306	20 038
Cash and Investment in Securities	**615**	**612**	539	539
Securities Purchased Under Resale Agreements	**373**	**373**	214	214
Accounts Receivable	**157**	**157**	255	255
Deferred Recoveries from the Minister	**40**	**40**	151	151
Liabilities				
Capital Market Borrowings	**10 958**	**10 769**	10 673	10 820
Borrowings from the Government of Canada	**6 215**	**7 651**	6 418	8 554
Securities Sold But Not Yet Purchased	**374**	**374**	-	-
Accounts Payable and Accrued Liabilities	**305**	**305**	341	341
Obligation Under Capital Lease	**27**	**43**	29	44
Securities Sold Under Repurchase Agreements	**-**	**-**	214	214
Off-Balance Sheet				
Derivative Financial Instruments				
In a Net Receivable Position		**48**		277
In a Net Payable Position		**139**		26
Insurance and Guarantee Funds				
Assets				
Investment in Securities	**3 880**	**3 806**	3 222	3 471
Mortgages	**4**	**4**	15	14
Securities Purchased Under Resale Agreements	**-**	**-**	684	684
Liabilities				
Accounts Payable and Accrued Liabilities	**53**	**53**	70	70
Securities Sold Under Repurchase Agreements	**-**	**-**	684	684

The estimated fair values of the following financial instruments are equal to carrying values due to their short-term maturity:

Corporate Account

- Cash
- Securities Purchased Under Resale Agreements
- Accounts Receivable
- Deferred Recoveries from the Minister
- Capital Market Borrowings (Short-term)
- Securities Sold But Not Yet Purchased
- Accounts Payable and Accrued Liabilities
- Securities Sold Under Repurchase Agreements

Insurance and Guarantee Funds

- Securities Purchased Under Resale Agreements
- Accounts Payable and Accrued Liabilities
- Securities Sold Under Repurchase Agreements

Fair values of the following financial instruments are determined by reference to quoted market prices:

Corporate Account

- Investment in Securities
- Capital Market Borrowings (Medium-term)

Insurance and Guarantee Funds

- Investment in Securities

Fair values of the following financial instruments are estimated using net present value analysis:

Corporate Account

- Loans and Investments
- Borrowings from the Government of Canada
- Obligation Under Capital Lease
- Off-Balance Sheet Derivative Financial Instruments

Insurance and Guarantee Funds

- Mortgages

21. COMMITMENTS

A. Loans and Investments

Commitments outstanding for Loans and Investments, net of forgiveness, amounted to $64 million, at 31 December 1999 (1998 - $26 million).

The majority (83%) of these outstanding commitments pertain to social housing loans which are normally advanced within a two-year period. These particular loans are disbursed at prevailing market interest rates and are subject to a five-year term.

B. Operating Leases

Minimal rental payments scheduled over the next five years on business premises and equipment under long-term non-cancellable leases are:

in millions of dollars

	2000	2001	2002	2003	2004
Business Premises	8	5	4	3	4
Equipment	10	2	1	-	-
Total	18	7	5	3	4

Total operating lease commitments at the end of 1999 were $37 million (1998- $40 million).

C. Future Contractual Obligations

Total contractual financial obligations for social housing programs under the Minister's Account extend for periods up to 38 years. Uncertainty in forecasting the economic factors used to calculate the financial obligations precludes reasonable estimation beyond five years.

Estimated obligations for the next five years are:

in millions of dollars

	2000	2001	2002	2003	2004
	1 705	1 737	1 724	1 722	1 716

22. CONTINGENT LIABILITIES

There were legal claims against the Corporate Account of $1 million (1998 - $1 million). There were other legal claims of $1 million (1998 - $1 million), which if successfully held against the Corporation, could result in charges to the Government of Canada through the Minister's Account. Legal claims of $27 million (1998 - $14 million) are pending against the Mortgage Insurance Fund. The Corporation continues discussions with Revenue Canada regarding unresolved tax items. Due to the uncertainty of the outcome of these events, no provision for loss has been made.

23. PENSION PLAN

The Corporation maintains an indexed, defined benefit pension plan. Retirement benefits are based on the average salary in any best five-year period and the number of years of service. The accrued pension benefits are determined using the projected benefits method prorated on service.

The Corporation's funding policy is to contribute the amount required to provide for current benefits attributed to service and to pay the unfunded pension plan liabilities over periods permitted by regulatory authorities.

Based on an actuarial valuation at 1 January 1998, and using management's best estimate, the status of the plan is:

in millions of dollars

	1999	**1998**
Net Assets Available for Benefits	**919**	855
Actuarial Value of Accrued Pension Benefits	**722**	702
Excess of Net Assets Over Actuarial Value of Accrued Pension Benefits	**197**	153

The pension expense (credit) amounts to $(24) million in 1999 (1998 - $7 million, 1997 - $26 million).

Although the Pension Fund financial position is determined by an independent actuary, changes in future conditions in the near term could require a material change in the recognized amounts.

Under the *Income Tax Act Regulations*, once the excess net assets reaches a certain level, employers must suspend making payments to the Pension Fund (funding holiday). During this period, the asset is reduced by applying the employer current service cost.

24. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with certain of these entities in the normal course of business. All material related party transactions are either disclosed below or in relevant notes.

Losses on loans and real estate, interest earnings, and the amortization of modernization and improvement expenditures, relating to certain Corporate Account assets, are recovered from the Government of Canada through the Minister's Account. The total of such recoveries, which are not considered subsidies to others, amounted to $235 million (1998 - $183 million, 1997 - $243 million) of which $51 million (1998 - $67 million, 1997 - $70 million) is included in Interest Earned in the Corporate Account.

The Corporation is required to make an annual fee payment from the Mortgage Insurance Fund to the Government of Canada. In 1999, $24 million in fees was expensed (1998 - $23 million, 1997 - $12 million), and will be paid by 31 March 2000.

In accordance with a Memorandum of Understanding between the Corporation and Canada Lands Company Limited (CLC) signed in 1998, the Corporation transferred $8 million worth of properties during the year (1998 - $61 million). In exchange, the Corporation has received interest bearing promissory notes at 7.35%, due December 2006. The carrying cost of the properties transferred in 1999 was previously adjusted to market value and accordingly no gain or loss was recognized on the transaction with CLC this year.

The interest expense related to Borrowings from the Government of Canada was $563 million (1998 - $592 million).

25. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Corporation, including those related to clients, suppliers, or other third parties, have been fully resolved.

26. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to the 1999 statement presentation.

Canada Pension Plan Investment Board

The financial statements of the Canada Pension Plan Investment Board (the "CPP Investment Board") have been prepared by management and approved by the Board of Directors. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Management is responsible for the contents of the financial statements and the financial information contained within the annual report.

The CPP Investment Board maintains records and develops and maintains systems of internal control and supporting procedures to provide reasonable assurance that the CPP Investment Board's assets are safeguarded and controlled and that transactions are in accordance with the *Canada Pension Plan Investment Board Act*, the accompanying regulations, the by-laws, and the Statement of Investment Policies, Standards and Procedures.

The Audit Committee assists the Board of Directors in discharging its responsibility to approve the annual financial statements. The Committee meets regularly with both management and the external auditors to discuss the scope and findings of audits and other work that the external auditors may be requested to perform from time to time, to review financial information, and to discuss the adequacy of internal controls. The Committee reviews and approves the annual financial statements and recommends them to the Board of Directors for approval.

The CPP Investment Board's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion in their Auditors' Report. The external auditors have full and unrestricted access to management and the Audit Committee to discuss any findings related to the integrity of the CPP Investment Board's financial reporting and the adequacy of internal control systems.

JOHN A. MACNAUGHTON
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Jane Nyman

JANE NYMAN
VICE PRESIDENT – FINANCE AND OPERATIONS

INVESTMENT CERTIFICATE

The *Canada Pension Plan Investment Board Act* (the "Act") requires that a certificate be signed by a director on behalf of the Board of Directors, stating that the investments of the CPP Investment Board held during the year were in accordance with the Act and the CPP Investment Board's investment policies, standards and procedures. Accordingly, the Investment Certificate follows.

The investments of the Canada Pension Plan Investment Board (the "CPP Investment Board"), held during the year ended March 31, 2000, were in accordance with the *Canada Pension Plan Investment Board Act* and the CPP Investment Board's Statement of Investment Policies, Standards and Procedures.

Mary C. Arnold.

MARY C. ARNOLD
CHAIR OF THE AUDIT COMMITTEE
ON BEHALF OF THE BOARD OF DIRECTORS, JUNE 1, 2000

AUDITORS' REPORT

TO THE BOARD OF DIRECTORS

We have audited the balance sheet and the statement of investment portfolio of the Canada Pension Plan Investment Board (the "CPP Investment Board") as at March 31, 2000 and the statements of income and accumulated net income from operations and of changes in net assets for the year then ended. These financial statements are the responsibility of the CPP Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the CPP Investment Board and the investments held as at March 31, 2000 and the results of its operations and of changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in our opinion, the transactions of the CPP Investment Board that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with the *Canada Pension Plan Investment Board Act* (the "Act") and the by-laws.

Further, in our opinion, the record of investments kept by the CPP Investment Board's management pursuant to paragraph 39(1)(c) of the Act fairly presents, in all material respects, the information required by the Act.

Deloitte & Touche LLP

CHARTERED ACCOUNTANTS
TORONTO, ONTARIO, MAY 19, 2000

March 31, 2000	2000	1999
ASSETS		
Investments (Note 2)		
Canadian equities	$ 1,954,371,638	$ 9,982,904
Non-Canadian equities	438,389,478	2,160,746
TOTAL INVESTMENTS	2,392,761,116	12,143,650
Cash and short-term investments	1,022,244	5,745,442
Other assets (Note 3)	1,079,581	68,392
TOTAL ASSETS	2,394,862,941	17,957,484
LIABILITIES		
Accounts payable and accrued liabilities (Note 4)	3,070,132	864,835
Due to Canada Pension Plan (Note 5)	—	4,948,187
TOTAL LIABILITIES	3,070,132	5,813,022
NET ASSETS	$ 2,391,792,809	$ 12,144,462
NET ASSETS, REPRESENTED BY		
Share capital (Note 6)	$ 100	$ 100
Accumulated net income from operations	460,337,709	202,362
Canada Pension Plan transfers (Note 7)	1,931,455,000	11,942,000
NET ASSETS	$ 2,391,792,809	$ 12,144,462

On behalf of the Board of Directors:

Mary C. Arnold

MARY C. ARNOLD
CHAIR OF THE AUDIT COMMITTEE

M. JOSEPH REGAN
DIRECTOR, MEMBER OF
THE AUDIT COMMITTEE

STATEMENT OF INCOME AND ACCUMULATED NET INCOME FROM OPERATIONS

Year Ended March 31, 2000	Year ended March 31, 2000	Six Months ended March 31, 1999
INVESTMENT ACTIVITIES		
Investment income (Note 8)	$ 463,785,627	$ 203,209
Investment expenses (Note 9)	(482,312)	(847)
	463,303,315	202,362
ADMINISTRATIVE ACTIVITIES (Note 10)		
Operating expenses	1,309,769	362,742
Salaries and benefits	1,003,036	256,930
Professional and consulting fees	855,163	455,993
	3,167,968	1,075,665
RECOVERY OF START-UP EXPENDITURES (Note 5)	—	(1,075,665)
NET INCOME FROM OPERATIONS	460,135,347	202,362
ACCUMULATED NET INCOME FROM OPERATIONS, BEGINNING OF PERIOD	202,362	—
ACCUMULATED NET INCOME FROM OPERATIONS, END OF PERIOD	$ 460,337,709	$ 202,362

STATEMENT OF CHANGES IN NET ASSETS

Year Ended March 31, 2000	Year ended March 31, 2000	Six Months ended March 31, 1999
NET ASSETS, BEGINNING OF PERIOD	$ 12,144,462	$ —
CHANGES IN NET ASSETS		
Canada Pension Plan transfers (Note 7)	1,919,513,000	11,942,000
Net income from operations	460,135,347	202,362
Share capital paid	—	100
INCREASE IN NET ASSETS FOR THE PERIOD	2,379,648,347	12,144,462
NET ASSETS, END OF PERIOD	$ 2,391,792,809	$ 12,144,462

March 31, 2000	Fair Value of Investments **2000**	 1999
CANADIAN EQUITIES		
(Managed by TD Quantitative Capital)		
Emerald Canadian Equity Funds	**$ 1,736,380,032**	$ 9,982,904
(Cost – $1,492,621,010; 1999 – $9,799,173)		
Canadian Equity Account – physical securities which when combined with the Emerald Canadian Equity Funds substantially replicate the composition of the Toronto Stock Exchange 300 Composite Index	**217,991,606**	—
(Cost – $140,407,927; 1999 – nil)		
TOTAL CANADIAN EQUITIES	**1,954,371,638**	9,982,904
NON-CANADIAN EQUITIES		
(Managed by Barclays Global Investors)		
Barclays Global Investors Canada Limited		
US Equity Index Fund (Canada)	**219,956,228**	1,042,157
(Cost – $202,208,758; 1999 – $1,045,396)		
EAFE Equity Index Fund B	**218,433,250**	1,091,235
(Cost – $197,976,469; 1999 – $1,097,687)		
Barclays Global Investors Canada Limited	—	27,354
Unhedged Synthetic EAFE Equity Index		
(Cost – nil; 1999 – $25,984)		
(collectively invested to substantially replicate the composition of the Morgan Stanley Capital International World Index ex-Canada)		
TOTAL NON-CANADIAN EQUITIES	**438,389,478**	2,160,746
TOTAL EQUITIES	**$ 2,392,761,116**	$ 12,143,650
% OF PORTFOLIO AT COST		
Canadian Equities	**80.3%**	81.9%
Non-Canadian Equities	**19.7%**	18.1%
	100.0%	100.0%

ORGANIZATION

The Canada Pension Plan Investment Board (the "CPP Investment Board") was formed pursuant to the *Canada Pension Plan Investment Board Act* (the "Act"). The CPP Investment Board is responsible for managing amounts that are transferred to it under Section 111 of the *Canada Pension Plan* in the best interests of the beneficiaries and contributors under that Act. The amounts are to be invested with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the factors that may affect the funding of the Canada Pension Plan (the "CPP") and the ability of the CPP to meet its financial obligations.

The CPP Investment Board commenced operations October 1, 1998 and has a fiscal year end of March 31.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

These financial statements present the financial position and operations of the CPP Investment Board as a separate legal entity, and therefore include only a portion of the assets (as described in Note 2) and none of the pension liabilities of the CPP. The statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Act and the accompanying Regulations.

B. VALUATION OF INVESTMENTS

Investments are recorded as of the trade date and are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Market prices for securities and unit values for pooled and mutual funds are used to represent fair value for the investments. Unit values reflect the quoted market prices of the underlying securities. Short-term investments are valued at cost plus accrued income which approximates fair value.

C. INCOME RECOGNITION

Investment income is recorded on the accrual basis and represents realized gains and losses on disposal or transfer of investments, unrealized gains and losses on investments held at the end of the period, dividend income, interest income, and distributions from mutual and pooled funds.

Realized gains and losses on investments sold during the period represent the difference between sale proceeds and cost, less related costs of disposition. Unrealized gains and losses represent the change in the difference between fair value and cost of investments at the beginning and end of each period.

D. TRANSLATION OF FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rates of exchange on the transaction date. Investments denominated in foreign currencies and held at the period end are translated at exchange rates in effect at the period end date. The resulting realized and unrealized gains and losses are included in investment income.

E. CANADA PENSION PLAN TRANSFERS

Amounts received from the CPP are recorded on a cash basis.

F. INCOME TAXES

The CPP Investment Board is exempt from Part I tax under paragraph 149(1)(d) of the *Income Tax Act (Canada)* on the basis that all of the shares of the CPP Investment Board are owned by Her Majesty in right of Canada.

G. USE OF ESTIMATES

In preparing these financial statements, management must make certain estimates and assumptions which can affect the reported values of assets and liabilities, related income and expenses and note disclosures.

2. INVESTMENTS

The statement of investment portfolio provides detailed information on the investments held as at March 31, 2000.

A. INVESTMENT POLICY

The CPP Investment Board has prepared a Statement of Investment Policies, Standards and Procedures (the "Investment Policy") which sets out the manner in which assets shall be invested. In determining the asset mix, the CPP Investment Board must take into consideration certain assets of the CPP which are held outside of the CPP Investment Board. As at March 31, 2000, these assets totalled approximately $30.3 billion (at cost) and consisted of government debt obligations. As a result, and in accordance with the Investment Policy, 100% of the CPP Investment Board's investments are allocated to equities with approximately 80% allocated to Canadian equities and the remainder to non-Canadian equities.

As at March 31, 2000, the Regulations under the Act require the CPP Investment Board's Canadian equities to substantially replicate the composition of one or more broad market indexes. The Toronto Stock Exchange 300 Composite Index (the "TSE 300 Index") has been selected as an appropriate market index for the Canadian equities. Under the terms of the Investment Policy, the CPP Investment Board's investments in non-Canadian equities should also substantially replicate broad market indexes. The Morgan Stanley Capital International ("MSCI") World Index ex-Canada has been selected for this purpose.

B. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial contracts, the value of which is derived from the value of underlying assets, interest rates or exchange rates.

As outlined in the Investment Policy, certain derivatives may be used to achieve market exposure by replicating direct investments in a relevant equity index, provided that the derivatives are not used to create leverage. The mutual and pooled funds in which the CPP Investment Board owns units are permitted to, and may from time to time, use derivatives subject to this constraint. There were no derivative contracts outstanding at March 31, 2000.

C. FOREIGN CURRENCY EXPOSURE

The CPP Investment Board is exposed to currency risk through holdings of units in pooled funds of non-Canadian equities where investment values will fluctuate due to changes in foreign exchange rates. The underlying currency exposures by geographical area as at March 31, 2000 are as follows:

	2000		1999	
Country/Region	**Fair value**	**% of Total**	Fair value	% of Total
United States	**$ 219,956,228**	**50%**	$ 1,042,157	48%
Europe	**145,796,261**	**34%**	802,370	37%
Far East	**67,453,540**	**15%**	282,138	13%
Australia and New Zealand	**5,183,449**	**1%**	34,081	2%
	$ 438,389,478	**100%**	$ 2,160,746	100%

In accordance with the Investment Policy, the foreign currency exposures are not hedged.

3. OTHER ASSETS

Other assets consisted of the following:

	2000	1999
Pending trades	$ 532,723	$ —
Dividends receivable	383,456	—
Fixed assets	141,354	67,222
Other assets	22,048	1,170
	$ 1,079,581	$ 68,392

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following:

	2000	1999
Pending trades	$ 1,801,263	$ —
Other accounts payable and accrued liabilities	1,268,869	864,835
	$ 3,070,132	$ 864,835

5. DUE TO CANADA PENSION PLAN

As permitted under Section 57 of the Act, during fiscal 1999 the CPP Investment Board received an allocation of $6,000,000 from the CPP for start-up expenditures. Of this amount, a total of $1,075,665 was utilized during the six-month period ended March 31, 1999. The excess amount of $4,948,187 (including interest of $23,852) was repaid to the CPP.

6. SHARE CAPITAL

The issued and authorized share capital of the CPP Investment Board is $100 divided into 10 shares having a par value of $10 each. The shares are owned by Her Majesty in right of Canada.

7. CANADA PENSION PLAN TRANSFERS

There are two conditions under which transfers to the CPP Investment Board are permitted, as outlined in Section 111 of the *Canada Pension Plan*. The first relates to the approximately $30.3 billion in government securities held by the CPP outside of the CPP Investment Board. In certain instances these securities may be rolled over at maturity, either wholly or in part, at the option of the issuer. To the extent that the funds are not required by the CPP to pay current pensions, and the existing issuer does not replace the matured securities, the proceeds are transferred to the CPP Investment Board. The second condition of transfer occurs when the Minister of Finance determines that the CPP has an excess operating balance. The excess portion is then transferred to the CPP Investment Board.

During the year, a total of $1,919,513,000 (1999 – $11,942,000) was transferred to the CPP Investment Board.

8. INVESTMENT INCOME

A. INVESTMENT INCOME FOR THE PERIOD

Investment income consisted of the following:

	2000	1999[1]
Interest income	**$ 1,841,708**	$ 8,293
Dividends	**3,650,408**	—
Distributions of income from mutual and pooled funds	**9,281,073**	—
	14,773,189	8,293
Unrealized gains	**359,371,542**	175,410
Realized gains	**89,640,896**	19,506
	449,012,438	194,916
TOTAL INVESTMENT INCOME	**$ 463,785,627**	$ 203,209

[1] Investment activity commenced on March 1, 1999. As a result the investment income for 1999 reflects only one month's activity.

In implementing its market replication strategy, the CPP Investment Board utilizes index funds. In instances where a large dollar value of index fund units is to be purchased, the CPP Investment Board initially purchases individual securities that make up the index. The securities are then transferred to the index fund in exchange for units in the fund. On transfer, a gain or loss may be realized representing the difference between the market price of the securities at the time of the transfer and their original cost.

B. INVESTMENT PERFORMANCE

Investment performance and benchmark returns are as follows:

	2000		1999[1]	
	Portfolio Returns	**Benchmark Returns**	Portfolio Returns	Benchmark Returns
Canadian equities	45.3%	45.5%	4.9%	4.8%
Non-Canadian equities	16.6%	16.1%	5.4%	4.4%
Total return	40.1%	39.3%	5.0%	4.7%

[1] Investment activity commenced with receipt of the first cash flow on March 1, 1999. As a result, the investment performance information reflects only one month's activity for the period ended March 31, 1999.

The benchmark for the Canadian equities is the TSE 300 Index and for the non-Canadian equities is the MSCI World Index ex-Canada. The total return benchmark aggregates the two benchmark returns according to the weightings (80% for Canadian equities and 20% for non-Canadian equities) specified in the Investment Policy.

Returns have been calculated in accordance with the methods set forth by the Association for Investment Management and Research.

9. INVESTMENT EXPENSES

Investment expenses consisted of the following:

	2000	1999
External investment management fees	**$ 342,481**	$ 252
Custodial fees	**139,831**	595
	$ 482,312	$ 847

10. ADMINISTRATIVE ACTIVITIES

Certain comparative figures have been reclassified to conform with the current year presentation.

A. OPERATING EXPENSES

Operating expenses consisted of the following:

	2000	1999
Communication expenses	$ 364,061	$ —
Remuneration earned by directors	269,095	168,550
Occupancy costs	230,711	38,378
Office supplies and equipment	178,642	14,040
Travel and accommodation for directors' meetings	100,526	89,388
Other operating expenses	166,734	52,386
	$ 1,309,769	$ 362,742

Remuneration earned by directors includes an annual retainer for each director of $12,000, board and committee meeting fees of $900 per meeting, plus an additional annual retainer of $3,000 for each committee chair. (Separate fees are not paid for investment committee meetings when they are held on the same day as board meetings.) The Chair also receives $32,000 as additional compensation for the position of Chair of the Board of Directors but is not eligible to receive the $3,000 retainer paid to committee chairs. Included in the above amount is $28,495 earned by the Chair from September 7, 1999 to March 31, 2000. Prior to September 7, 1999, the Chair had been discharging the duties of the Chief Executive Officer and accordingly, the compensation for this period has been included in salaries and benefits (see (B) below). Directors of the CPP Investment Board come from various regions of the country and accordingly they incur travel and accommodation expenses in attending meetings of the board and committees. In fiscal 2000, eight board meetings and thirteen committee meetings were held.

B. SALARIES AND BENEFITS

Included in salaries and benefits is the compensation earned by the two executive officers of the CPP Investment Board since the commencement date of their employment in the fiscal year ended March 31, 2000.

Employee	Position	Salary	Annual Bonus[3]	Benefits[4]
John MacNaughton[1,5]	President and Chief Executive Officer	$201,923	$100,962	$4,256
Jane Nyman[2,5]	Vice President – Finance and Operations	$ 78,077	$ 37,589	$ 124

[1] Commenced employment on September 7, 1999.

[2] Commenced employment on September 13, 1999. Prior thereto, Ms. Nyman provided services on a contract basis.

[3] Bonus amounts are based on the achievement of agreed objectives and reflect amounts payable for the current year. In addition, a long-term incentive plan is being put in place to focus on the achievement of longer term objectives.

[4] Benefits include life insurance, club dues, and other miscellaneous non-cash remuneration.

[5] Both Mr. MacNaughton and Ms. Nyman are eligible for pension benefits under a defined contribution arrangement which is expected to be finalized in early fiscal 2001.

Remuneration earned by the Chair, Gail Cook-Bennett, while discharging the duties of the Chief Executive Officer prior to September 7, 1999, was $123,000 (1999 – $135,000). She was paid a per diem rate and was not eligible to receive a bonus or benefits.

C. PROFESSIONAL AND CONSULTING FEES

Professional and consulting fees consisted of the following:

	2000	1999
Consulting fees	$ 626,262	$ 291,417
Legal	123,788	125,610
Professional accounting and audit fees	105,113	38,966
	$ 855,163	$ 455,993

Consulting fees represent amounts paid for professional advice in connection with the development of business strategy and human resource policies, the search for executive officers, and other professional advice received by the CPP Investment Board.

Top 25 Canadian equity holdings as at March 31, 2000

Security name	Fair value ($'000)	Shares ('000)
Nortel Networks Corporation	380,839	2,091
BCE Inc.	266,796	1,474
The Seagram Company Ltd.	64,655	751
The Toronto-Dominion Bank	54,652	1,423
Royal Bank of Canada	47,558	699
Bombardier Inc., Class "B" SV	42,871	1,176
Canadian Imperial Bank of Commerce	38,078	919
The Bank of Nova Scotia	32,885	1,132
Bank of Montreal	31,217	612
Celestica Inc.	28,477	373
JDS Uniphase Canada Ltd.	26,621	154
Alcan Aluminium Limited	24,273	500

Security name	Fair value ($'000)	Shares ('000)
Canadian Pacific Limited	24,207	747
Ballard Power Systems Inc.	22,177	200
Barrick Gold Corporation	20,488	911
Canadian National Railway Company	17,724	463
Research in Motion Limited	17,467	115
The Thomson Corporation	17,441	383
Shaw Communications Inc., Class "B"	15,930	408
Suncor Energy Inc.	15,906	253
Petro-Canada	15,011	622
Newbridge Networks Corporation	14,781	321
Alberta Energy Company Ltd.	14,071	322
Talisman Energy Inc.	13,100	317
BCT.Telus Communications Inc.	12,817	298

Top 15 foreign equity holdings as at March 31, 2000

($ CAD equivalent)

Security name	Country	Fair value ($'000)	Shares ('000)
Microsoft Corporation	US	9,546	62
Cisco Systems Inc.	US	9,131	81
General Electric Company	US	8,789	39
Intel Corporation	US	7,608	40
Vodafone Group PLC	United Kingdom	7,337	909
Nokia Oyj	Finland	5,517	18
Deutsche Telekom AG	Germany	5,291	45
Exxon Mobil Corporation	US	4,638	41
Nippon Telegraph & Telephone Corporation	Japan	4,344	1
Wal-Mart Stores Inc.	US	4,266	53
Toyota Motor Corp.	Japan	4,228	56
BP Amoco PLC	United Kingdom	3,874	292
France Telecom SA	France	3,828	15
Oracle Corporation	US	3,807	34
International Business Machines Corporation	US	3,671	21

Canadian and foreign equity holdings include shares held directly and through mutual and pooled funds which collectively replicate the TSE 300 Index and the MSCI World Index ex-Canada.

Canada
Ports
Corporation

Auditors' Report

To the Honourable David Collenette, P.C., M.P.
Minister of Transport

We have audited the consolidated balance sheet of Canada Ports Corporation as at December 31, 1999 and the consolidated statements of income and deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year. Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and the by-laws of the Corporation.

Raymond Chabot Grant Thornton

Chartered Accountants
Ottawa, Ontario
February 16, 2000

Consolidated Balance Sheet *As at December 31, 1999*

	1999	1998
Assets	(in thousands of dollars)	
Current assets		
Cash	$ 4,537	$ 3,677
Short-term investments (Note 5)	19,195	55,322
Accounts receivable	3,286	6,556
Materials and supplies	3,033	2,944
	30,051	68,499
Deferred financing expenses	58	–
Investments (Note 5)	2,997	10,363
Capital assets (Note 6)	58,833	110,625
	91,939	189,487
Interport Loan Fund (Note 12)	52,979	94,592
	$ 144,918	$ 284,079
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 7)	$ 11,281	$ 20,714
Due to Interport Loan Fund (Note 8)	1,495	2,659
	12,776	23,373
Accrued employee benefits	–	324
Due to Interport Loan Fund (Note 8)	36,638	65,853
Long-term debt (Note 9)	68,715	168,823
	118,129	258,373
Contingencies (Notes 17 and 18)		
Deficiency of Canada		
Contributed capital (Note 4 and 10)	139,851	56,803
Deficit (Note 4 and 11)	(166,041)	(125,689)
	(26,190)	(68,886)
	91,939	189,487
Interport Loan Fund (Note 12)	52,979	94,592
	$ 144,918	$ 284,079

The accompanying notes are an integral part of these consolidated financial statements

On behalf of the Board:

Kenneth R. Nurse
Chairman

Allan E. Maher
Director

Canada Ports Corporation

Consolidated Statement of Income and Deficit

For the year ended December 31, 1999

	1999	1998
	(in thousands of dollars)	
Revenue from operations	$ 42,049	$ 52,247
Operating and administrative expenses	20,163	22,647
Depreciation	2,688	4,755
Municipal grants and taxes	1,601	2,041
	24,452	29,443
Income from operations	17,597	22,804
Investment income (Note 5)	2,447	6,005
Interest expense	(9,159)	(16,447)
Income before the undernoted items	10,885	12,362
Write-down of capital assets (Note 18)	(411)	(123)
Divestiture costs	(652)	(1,254)
Net income for the year	9,822	10,985
Deficit at beginning of the year	(125,689)	(136,431)
Dividend to Canada	(1,040)	(243)
Transfers of surplus to Canada Port Authorities	(49,134)	–
Deficit at end of the year	$ (166,041)	$ (125,689)

The accompanying notes are an integral part of these consolidated financial statements

Canada Ports Corporation

Consolidated Statement of Cash Flows

For the year ended December 31, 1999

	1999	1998
	(in thousands of dollars)	
Operating Activities		
Net income for the year	$ 9,822	$ 10,985
Items not affecting cash		
Depreciation	2,688	4,755
Write-down of capital assets	411	123
Gain on disposal of long-term investments	(52)	(1,405)
Other	(423)	(324)
Net change in non-cash components of working capital	(3,558)	(5,955)
Cash flows provided by operating activities	8,888	8,179
Financing Activities		
Capital grants	5	1,657
Changes in amount due to Canada	–	(785)
Transfers from Interport Loan Fund	–	1,800
Repayment of transfers from Interport Loan Fund	(1,380)	(2,387)
Issuance of long-term debt	193,999	656
Repayment of long-term debt	(265,202)	(87)
Contribution from Canada	90,000	–
Repayment of long-term debt	(1,040)	(243)
Transfer of cash and cash equivalents to Canada Port Authorities	(2,378)	–
Transfer to a local port corporation	–	(8,120)
Deferred financing expenses	(271)	–
Cash flows provided (required) by financing activities	13,733	(7,509)
Investing Activities		
Additions to capital assets	(864)	(7,037)
Change in construction payables	(1,063)	695
Increases in short-term and long-term investments	(23,991)	(4,543)
Proceeds on disposal of long-term investments	515	8,064
Advance to an officer	(240)	–
Cash flows required by investing activities	(25,643)	(2,821)
Decrease in Cash and Cash Equivalents	(3,022)	(2,151)
Cash and Cash Equivalents at beginning of the Year	18,780	20,931
Cash and Cash Equivalents at end of the Year	$ 15,758	$ 18,780
Cash and Cash Equivalents		
Cash	$ 4,537	$ 3,677
Short-term investments	11,221	15,103
	$ 15,758	$ 18,780

The accompanying notes are an integral part of these consolidated financial statements

1. *Canada Ports Corporation Act*

Canada Ports Corporation (the Corporation) was established under the *Canada Ports Corporation Act* (the *Act*), to administer, manage and control Canadian harbours, and any other harbour, work or property of Canada transferred by the Governor in Council. The Corporation is named in Part II of Schedule III of the *Financial Administration Act* and is exempt from income tax.

For a portion of the year, the Corporation had direct responsibility for operating seven divisional ports. The Corporation also has a wholly-owned subsidiary, Ridley Terminals Inc. (RTI), a coal terminal facility at Prince Rupert. As at December 31, 1999, the Corporation's responsibility is to operate two divisional ports (see note 18). The *Act* provides for the establishment of local port corporations to manage and operate additional selected ports. The *Act* also charges the Corporation with certain responsibilities respecting these ports, particularly concerning capital projects. In addition, the Corporation administers the Interport Loan Fund.

On June 11, 1998, Bill C-9, *Canada Marine Act* (CMA), received Royal Assent. The part of the CMA pertaining to the Canada Port Authorities was proclaimed in 1999. The remaining sections are expected to come into force in 2000, at which time the *Canada Ports Corporation Act* will be repealed and the Corporation will be dissolved. Under the *CMA*, the Corporation's assets and obligations are to devolve to the Crown under the administration of the Minister of Transport (see note 18).

2. Significant accounting policies

(a) Financial statements

The financial statements of the Corporation include the accounts of the divisional ports, for the period while they were under its administration, and of RTI. The activities of the local port corporations are excluded from the financial statements from the date of their establishment. As the earnings of the Interport Loan Fund do not automatically accrue to the Corporation, the assets, liabilities, revenues and expenses of the Fund are not consolidated (see note 12).

(b) Cash and cash equivalents

Cash and cash equivalents include cash and temporary investments maturing in less than three months from the acquisition date.

(c) Investments

The short-term investments are carried at the lower of cost or market. Long-term investments are carried at the lower of amortized cost, whereby premiums or discounts from par value are amortized over the periods to maturity, or market if a permanent decline in value exists.

(d) Materials and supplies

Materials and supplies consist of supplies, consumables and repair parts. They are valued at the lower of average cost and replacement cost.

(e) Deferred financing expenses

The deferred financing expenses are to be amortized on a straight-line basis over the term of the loan, amortization to commence once the refinancing is completed (see notes 8 and 12).

F3

(f) Capital assets

Capital assets are recorded at cost, with the exception of those transferred to the Corporation from Canada. The assets transferred from Canada are recorded at appraised or fair market value established at the time of transfer. Government grants received towards capital projects are deducted from the cost of the related capital assets.

Depreciation of capital assets is calculated on the straight-line basis commencing with the year the asset becomes operational, using rates based on the estimated remaining useful life of the assets (see note 6).

(g) Pension plans

Employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Under present legislation, contributions made by the Corporation to the Plan are limited to an amount equal to the employee's contributions on account of current service. These contributions represent the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account. Employees of RTI are covered separately by a contributory defined-benefit plan.

(h) Municipal grants and taxes

The expense for municipal grants and taxes is based on estimated municipal assessments, adjusted in accordance with the *Municipal Grants Act* where applicable. Municipal grants are finalized after the amounts have been audited by the Municipal Grants Division of Public Works and Government Services Canada. Any adjustments upon finalization of the grants are reflected in the accounts in the year of settlement.

(i) Employee benefits

The Corporation accrues in its accounts the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees under its collective agreements, or in accordance with its policy.

(j) Revenue recognition

Revenue is recognized as the related services are provided. RTI's coal throughput revenue is recorded at 50% of the contracted throughput rate at the time the coal is received at the terminal, with the balance being recorded at the time of ship loading.

3. Change in accounting policy

During the year, the Corporation has adopted, on a retroactive basis, the new recommendations issued by the Canadian Institute of Chartered Accountants with respect to disclosure of cash flows. In previous years, the Corporation presented information on changes in financial position. This change in accounting policy has had no significant impact.

4. Canada Port Authorities

On May 1, 1999, the operations of the ports of Sept-Îles, Saguenay and Trois-Rivières were transferred from the Corporation to each of the three Canada Port Authorities constituted by letters patent at these ports pursuant to the *Canada Marine Act*. The results of the operations applicable to these ports are as follows:

	1999	1998
	(in thousands of dollars)	
Port of Sept-Îles		
Revenue from operations	$ 2,292	$ 7,866
Income from operations	$ 1,144	$ 4,255
Port Saguenay		
Revenue from operations	$ 320	$ 985
Income from operations	$ 82	$ 326
Port of Trois-Rivières		
Revenue from operations	$ 932	$ 3,478
Income from operations	$ 5	$ 1,342

The Corporation's contributed capital and surplus with respect to these transferred ports, in the amounts of $6,952,000 and $49,134,000 respectively, have been transferred to the Canada Port Authorities.

5. Investments

Short-term investments consist of $19,195,000 (1998 - $52,829,000) of Canada treasury bills. As at December 31, 1999, there are no other marketable securities (1998 - $2,493,000). Interest rates on these investments vary from 4.40% to 5.05%. As at December 31, 1999 and 1998, the market value of the short-term investments approximates their cost.

Long-term investments of $2,997,000 (1998 - $10,363,000) are Canada bonds with an interest rate of 13.23% and maturing on May 1, 2001. As at December 31, 1999, their market value is $3,272,000 (1998 - $12,290,000).

A gain on disposal of Canada bonds of $52,000 (1998 - $1,405,000) is included in investment income.

6. Capital assets

(a) Summary

	Depreciation rates %	Cost or appraised value	Accumulated depreciation and write-downs	1999 Net	1998 Net
				(in thousands of dollars)	
Land	-	$ 7,016	$ -	$ 7,016	$ 12,517
Dredging	2.5 - 6.7	7,420	1,408	6,012	6,819
Berthing structures	2.5 - 10	28,100	8,171	19,929	30,795
Buildings	2.5 - 10	6,640	3,491	3,149	21,771
Coal terminal facility	2.9 - 33	22,877	6,805	16,072	16,462
Utilities	3.3 - 10	6,178	1,237	4,941	7,999
Roads and surfaces	2.5 - 10	4,080	2,568	1,512	2,866
Machinery and equipment	5 - 100	6,454	6,358	96	7,389
Office furniture and equipment	20 - 33	184	166	18	111
Works under construction	-	88	-	88	3,896
		$ 89,037	$ 30,204	$ 58,833	$110,625

(b) During the year, RTI revised the estimated useful life and attributed a residual value for its terminal facility. The depreciation period, which was previously 25 years, was modified to 34 years. These changes have resulted in a $587,000 decrease in the depreciation expense for the year and an equivalent increase in the net income.

(c) Capital grants

In 1999, the Corporation received capital grants towards the construction of capital assets totalling $5,000 (1998 - $1,657,000).

7. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are deferred revenues of $830,000 (1998 - $3,169,000). There is no current portion of long-term debt included in this amount for 1999 (1998 - $93,000).

Also included in accounts payable and accrued liabilities is an amount of $5,619,000 (1998 - $8,195,000) for other potential dissolution costs which are not determinable at this time (see note 18) and a provision for employee termination costs upon dissolution of the Corporation of $1,178,000 (1998 - $1,825,000). Last year, the provision for employee termination costs was reduced significantly to reflect a change in accounting estimate. The Corporation's share of the cost recovery related to the change in accounting estimate is nil in 1999 (1998 - $409,000).

8. Due to Interport Loan Fund

The Interport Loan Fund (see note 12) has provided long-term financing for the coal terminal and the Mixed Cargo Terminal projects at the Port of Belledune :

	1999	1998
	(in thousands of dollars)	
(a) Transfers to the Port of Belledune bearing interest at 5.36% to 11.47%, repayable in blended annual instalments of principal and interest of $4,659,000 and maturing between December 31, 2012 and 2015.	$38,133	$39,513
(b) Transfers to the Port of Sept-Îles bearing interest at 7.91% to 9.20%.	-	28,999
	38,133	68,512
Less: Current portion	(1,495)	(2,659)
	$36,638	$65,853

Principal repayment requirements over the next five years amount to $1,495,000 in 2000; $1,619,000 in 2001; $1,754,000 in 2002; $1,901,000 in 2003 and $2,061,000 in 2004.

The Corporation is in the process of refinancing the Port of Belledune obligations to the Interport Loan Fund in the private sector (see note 12).

On May 1, 1999, the Port of Sept-Îles obligations to the Interport Loan Fund were transferred to the new Sept-Îles Port Authority, pursuant to section 12(4) of the *Canada Marine Act*. The obligations were subsequently repaid to the Interport Loan Fund by the Port Authority.

9. Long-term debt

	1999	1998
	(in thousands of dollars)	
(a) Loan from Canada, repaid on December 15, 1999, and bearing interest at 6.44%.	$ -	$ 193
(b) Loan from Province of New Brunswick, interest free, repayment based on 25% of Port of Belledune's net income commencing June 30, 2001; loan to be fully repaid by June 30, 2013.	3,723	3,723
(c) Loan facility, repayable on February 11, 2003, and bearing interest at 5.28%.	60,000	-
(d) Canadian dollar banker acceptances, repayable at maturity of the loan facility of $60 million, and bearing interest at the bank's acceptance rate plus 0.095%.	4,992	-
(e) RTI note, under a revolving credit facility, repaid on February 12, 1999, and bearing interest at Canadian inter-bank bankers' acceptance rate plus 0.30%.	-	165,000
	68,715	168,916
Less: Current portion	-	(93)
	$68,715	$168,823

Principal repayment requirements over the next five years amount to $0 in 2000; $163,000 in 2001; $218,000 in 2002; $288,000 in 2003 and $362,000 in 2004.

The loan from the Province of New Brunswick provides partial financing to the Port of Belledune for the mixed cargo terminal project. Under the amended financing agreement with the Province, a total amount of $3,850,000 is to be loaned, interest free. While the repayments are to be based on the Port of Belledune's net income, they do not commence until June 30, 2001, in accordance with the 1999 amendments to the terms and conditions of the loan. Consequently, there is no repayment requirement for 2000. As future loan repayments are based on the Port's future net income, the principal repayments noted above are based on estimates.

On February 11, 1999, RTI refinanced its credit facility in the private sector with the following:

(a) Loan facility of $75 million, repayable on February 11, 2003, bearing interest at 5.28% on the first $60 million and bearing interest at the bank acceptance rate for Canadian bankers' acceptances plus 0.095% on the remaining balance of the facility,

(b) Non-revolving bridge term loan of $90 million, repaid on March 31, 1999, and bearing interest at the bank acceptance rate for Canadian bankers' acceptances plus 0.085% (see note 10),

(c) Revolving line of credit facility of $20 million, repayable on February 11, 2003, bearing interest at the bank acceptance rate for Canadian bankers' acceptances plus 0.095%.

The above facilities are guaranteed unconditionally by the Government of Canada to a maximum of $95 million plus interest and other amounts up to $6 million.

10. Contributed capital

During 1999, the Corporation received from the Crown $90 million to purchase shares of RTI, its wholly-owned subsidiary. The transaction was recorded as an increase of the Crown's contributed capital in the Corporation.

RTI was required to apply the proceeds from the sale of its shares to retire the non-revolving bridge term loan in the amount of $90 million (see note 9).

11. Deficit

At the incorporation of RTI in 1981, 50% of RTI was owned by the Corporation while the remaining 50% was owned by an unrelated party. The shareholders' agreement of RTI provided a condition for the unrelated party to sell its shares to the Corporation in 1991. On July 30, 1991, the Corporation purchased the remaining 50% ownership in RTI and RTI became a wholly-owned subsidiary of the Corporation. The share purchase of $58.5 million was paid in cash and was fully financed by Canada. The excess of the purchase price, over the assets acquired of $31.7 million less the liabilities assumed of $229.1 million, resulted in a loss on acquisition of RTI of $255.9 million.

12. Interport Loan Fund

In 1988, authority was granted by Canada to the Corporation to establish an Interport Loan Fund (the Fund). This Fund is administered by the Corporation and was established to provide financing for financially viable capital projects of the Corporation and local port corporations. Financing is provided by way of transfers to divisional ports managed by the Corporation and by way of loans to local port corporations. Transfers and loans bear interest at the Crown corporation lending rate, the rate in effect from time to time between Canada and Crown corporations. Until December 31, 1994, earnings of the Fund were, pursuant to the terms and conditions under which the Fund was established, restricted to the uses for which the Fund was established. During 1995, the terms and conditions were amended to provide that the remaining earnings of the Fund for a year, after providing for the dividend to Canada, be transferred to the Corporation to be applied against the administrative office costs for the year. The 1995 amendment to the terms and conditions was revoked in 1999.

The balance sheet of the Fund as at December 31 shows:

	1999	1998
	(in thousands of dollars)	
Assets		
Current		
Cash and investments	$14,846	$28,135
Transfers receivable (note 8)	1,495	2,659
	16,341	30,794
Transfers receivable (note 8)	36,638	65,853
Allowance for doubtful accounts	(-)	(2,055)
	$52,979	$94,592
Liability		
Current		
Due to the Corporation	$ 27	$ 756
Fund Balance		
Contributed capital	26,650	70,332
Retained earnings	26,302	23,504
	52,952	93,836
	$52,979	$94,592

The investments of the Fund, shown at cost, are direct and guaranteed securities of Canada. The interest rates vary from 4.55% to 4.83%. As at December 31, 1999 and 1998, the market value of the investments approximates their cost.

The Corporation is in the process of refinancing the Port of Belledune obligations to the Fund in the private sector. Even though the total amount to be refinanced remains unknown at this time, lenders have indicated to the Corporation that a debt forgiveness will be required. As it is currently impossible to establish the amount of forgiveness, no provision has been made. It is anticipated that the transaction will be recorded as a transfer of the Crown's contributed capital in the Fund to the Crown's contributed capital in the port.

The funds advanced to the Port of Belledune in 1999 are nil (1998 - $1.8 million).

The Fund is committed to provide financing of $0.4 million in 2000 for a capital project at the Port of Belledune.

During the year, the Corporation reimbursed in full the Crown's investment in the Fund. This transaction was recorded as a decrease in the Fund's contributed capital.

In accordance with the terms and conditions under which the Fund was established, the Corporation is required to pay to Canada a dividend from the Fund in respect of the 1999 fiscal year. The final dividend, paid in 1999, amounted to $1,351,000 and has been applied against the retained earnings.

The statement of income and retained earnings of the Fund is as follows:

	1999	1998
	(in thousands of dollars)	
Interest income	$ 5,181	$ 6,943
Recovery of bad debt expense	2,055	18
Operating and administrative expenses	(169)	(234)
Net income for the year	7,067	6,727
Retained earnings at beginning of the year	23,504	19,241
Payment of dividend to Canada	(4,269)	(1,762)
Transfer to the Corporation	-	(702)
Retained earnings at end of the year	$26,302	$23,504

13. Pension plans

As at December 31, 1999, the updated actuarial reports of RTI's contributory plan indicate that the actuarial present value of the accrued pension benefits amounts to $12,087,000 (1998 - $10,725,000) and the market value of the pension fund assets amounts to $11,991,000 (1998 - $10,624,000). RTI's pension expense for 1999 of $536,000 (1998 - $707,000) is actuarially determined.

14. Related party transactions

Through common ownership, the Corporation is related to all Government of Canada created departments, agencies and Crown corporations.

In 1999, no operating and administrative costs incurred by the Corporation have been recovered from the new Port Authorities or former local port corporations (1998 - $2,595,000). Operating expenses include rental costs of $1,982,000 (1998 - $1,689,000) charged by a Port Authority. At December 31, 1999, $129,000 (1998 - $98,000) of these rental costs are included in accounts payable and accrued liabilities. Interest charges on the debt to EDC, a Crown corporation, amounted to $1,013,000 (1998 - $10,463,000). At the end of 1999, no interest was payable to EDC (1998 - $388,000) (see note 9).

Included in accounts receivable is a receivable from the Interport Loan Fund of $27,000 (1998 - $756,000) (see note 12).

Included in accounts payable and accrued liabilities are deferred revenues of $744,000 (1998 – $1,577,000) obtained from Port Authorities.

Investment income of $2,160,000 (1998 - $4,130,000) was earned on Canada securities and interest charges of $13,000 (1998 - $18,000) were paid to Canada.

Details of other transactions with the Government of Canada (or with related parties) are disclosed in notes 4, 5, 8, 9, 10, 11, 12, 16(b) and 16(c).

15. Economic dependence

The Corporation's wholly-owned subsidiary, RTI, is dependent upon the production of two coal suppliers who provided 49.6% and 25.3% respectively of the subsidiary's 1999 revenue (1998 - 63.6% and 26.1%) under throughput agreements terminating March 31, 2003. Subsequent to year end, RTI was advised of the closure of its major coal supplier by August 2000, as opposed to the year 2003. The outcome of this closure may have an impact on the nature of future operations and management is currently investigating various options.

16.Commitments

(a) Contractual obligations for the completion, construction and purchase of capital assets are estimated at $19,000 of which most will be incurred in the year ending December 31, 2000.

(b) RTI leases, from the Prince Rupert Port Authority, the land on which the coal terminal facility is constructed. The lease is for twenty-five years commencing March 31, 1984, with a twenty-year renewal term effective March 31, 2009. Lease payments are based on throughput charges per tonne which are subject to escalation provisions relating to increases in the Canadian Consumer Price Index for each year.

(c) In accordance with the Ports Canada policy respecting dividends to Canada, the Corporation is required to pay a dividend in respect of the 1999 fiscal year. A dividend of $49,000 was paid in 1999 on behalf of the Ports of Sept-Îles, Saguenay and Trois-Rivières for the period while they were under the administration of the Corporation. For the other divisional ports, the dividend payable in 2000, amounts to approximately $72,000 and will be applied against the Corporation's deficit.

17. Contingencies

Claims aggregating approximately $1,878,000 in respect of lawsuits, guarantees, employee agreements, damages allegedly suffered on the Corporation's property and sundry other matters in dispute have been received by the Corporation. In the opinion of Management, the final outcome of such claims should not result in any material financial liability and, accordingly, no provision has been recorded in these respects.

Employees are permitted to accumulate unused sick leave. However, such leave entitlements do not vest and can be used only in the event of illness. The amount of accumulated sick leave entitlements which will become payable in the future cannot reasonably be determined. Payments of sick leave benefits are included in current operations.

In the normal course of business, the Corporation is exposed to potential environmental issues, some of which have been identified. As any ultimate financial effect is not presently determinable, no provision has been made in the accompanying financial statements.

18. *Canada Marine Act*

Pursuant to the *Canada Marine Act*, the Ports of Sept-Îles, Saguenay and Trois-Rivières were constituted as Canada Port Authorities during 1999. On December 16, 1999, the Corporation's administration, management and control of the Port of Baie des Ha! Ha! was terminated by Order in Council. Also in 1999, the divestiture of the Port of Colborne to the City of Port Colborne was completed. The facilities at the Port of Prescott are in the process of being divested. The Port of Belledune is expected to be constituted a Canada Port Authority during 2000, pursuant to the *Act*. If the transfer of these latter two ports is not completed prior to the dissolution of the Corporation, they will become public ports, under the administration of the Minister of Transport, as defined in the *Act*. RTI will become a parent Crown Corporation and the Minister of Transport is named the appropriate Minister for the purposes of the *Financial Administration Act*. The Corporation's present administrative office will be wound up on the dissolution of the Corporation and the Corporation's remaining assets and obligations will devolve to the Crown under the administration of the Minister of Transport. It is anticipated that the sections of the *Canada Marine Act* pertaining to the Corporation will be proclaimed in 2000.

The effects of the dissolution of the Corporation are not fully known at this time. In 1999, a provision of $411,000 has been made with respect to the carrying values of assets at the Port of Prescott (1998 - $123,000 for Port Colborne). No expense has been recorded with respect to differences between the carrying values of assets and obligations and those values which may ultimately arise on the transfer of the other divisional ports and RTI, as the differences, if any, are not determinable at this time.

19. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Corporation, including those related to customers, suppliers, or other third parties, have been fully resolved.

20. Comparative figures

Certain of the 1998 comparative figures have been reclassified to conform to the current year's presentation.

Canada
Post
Corporation

Management's Responsibility for Financial Reporting

Management and the Board of Directors are responsible for the consolidated financial statements and all other information presented in this Annual Report. The Financial Administration Act and regulations require the consolidated financial statements to be prepared in accordance with generally accepted accounting principles. Management has been proactive in disclosing information which typically would only be required to be disclosed by enterprises, the securities of which are traded in a public market.

Where appropriate, the consolidated financial statements include amounts based on management's best estimates and judgments. Financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

In support of its responsibilities, management maintains financial and management control and information systems and management practices which are of high quality, consistent with reasonable cost. These systems and practices are designed to provide reasonable assurance that relevant and reliable financial information is produced and the assets are safeguarded and controlled in accordance with the Financial Administration Act and regulations, as well as the Canada Post Corporation Act and by-laws of the Corporation. Internal audits are conducted to assess management systems and practices, and reports are issued to the Management Executive Committee and the Audit Committee of the Board.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control principally through the Audit Committee, which is composed of the Chairman of the Board of Directors (ex-officio) and four directors who are not employees of the Corporation. The Audit Committee meets regularly to oversee the internal audit activities of the Corporation, and at least annually to review the consolidated financial statements and the external auditors' report thereon and recommend them to the Board of Directors for approval.

Canada Post Corporation is a Crown corporation named in Part II of Schedule III of the Financial Administration Act since 1989. Accordingly, each year, the Governor in Council appoints the Corporation's external auditors after giving consideration to the recommendations of the Corporation's Board of Directors on this matter. Deloitte & Touche LLP were reappointed for the current fiscal year. They audit the consolidated financial statements and report to the Audit Committee as well as the Minister responsible for Canada Post Corporation.

All parent Crown corporations are subject to a special examination at least once every five years and at such additional times as the Governor in Council, the appropriate Minister or the board of directors of the corporation to be examined may require. The special examination, a type of value-for-money audit, serves to provide an independent opinion to the board of directors on whether the corporation's financial and management control and information systems and management practices were maintained in a manner that provided reasonable assurance that: the assets of the corporation were safeguarded and controlled; the financial, human and physical resources of the corporation were managed economically and efficiently; and the operations of the corporation were carried out effectively. A special examination is carried out by the auditor of a parent Crown corporation. Deloitte & Touche LLP carried out the last special examination in respect of the Corporation. Their examination covered the period from September 1, 1998 to May 31, 1999.

André Ouellet

President and Chief Executive Officer
May 4, 2000

Auditors' Report

To the Minister Responsible for Canada Post Corporation:

We have audited the consolidated balance sheet of Canada Post Corporation as at March 25, 2000 and the consolidated income, equity of Canada and cash flow statements for the year then ended (pages 34 to 45). These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 25, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Financial Administration Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation and of its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Canada Post Corporation Act and the by-laws of the Corporation and its wholly-owned subsidiaries.

Deloitte + Touche LLP

Chartered Accountants
Ottawa, Canada
May 4, 2000

Consolidated Income Statement

Year ended (in millions of dollars)	**March 25** **2000**	March 27 1999
Revenue from operations	**$ 5,637**	$ 5,380
Cost of operations		
Salaries	**2,775**	2,624
Benefits	**557**	559
Collection, processing and delivery	**891**	866
Accommodation	**273**	267
Amortization of capital assets	**180**	172
Goodwill charges	**10**	7
Other	**875**	826
	5,561	5,321
Income from operations	**76**	59
Non-operating income (expense)		
Investment and other income	**27**	29
Interest	**(23)**	(22)
	4	7
Income before income taxes	**80**	66
Income taxes (note 10)	**5**	16
Net income	**$ 75**	$ 50

The accompanying notes are an integral part of these financial statements.

Consolidated Equity of Canada Statement

Year ended (in millions of dollars)	**March 25** **2000**	March 27 1999
Contributed capital (note 9)		
Balance, beginning of year	**$ 1,155**	$ 1,355
Return of contributed capital	**—**	(200)
Balance, end of year	**1,155**	1,155
Deficit		
Balance, beginning of year	**(162)**	(200)
Net income	**75**	50
	(87)	(150)
Dividend	**12**	12
Balance, end of year	**(99)**	(162)
Equity of Canada	**$ 1,056**	$ 993

The accompanying notes are an integral part of these financial statements.

Consolidated Cash Flow Statement

Year ended (in millions of dollars)	**March 25 2000**	March 27 1999
Cash flows from (used in) operating activities		
Net income	**$ 75**	$ 50
Adjustments for:		
Amortization of capital assets	**180**	172
Goodwill charges	**10**	7
Gain on disposal of capital assets	**(1)**	(4)
Accrued termination and post-retirement benefits	**77**	118
	341	343
Termination and post-retirement benefit payments	**(30)**	(25)
Change in non-cash working capital (note 8)	**191**	(37)
	502	281
Cash flows from (used in) investing activities		
Segregated cash and investments	**(28)**	(31)
Acquisition of capital assets	**(235)**	(97)
Proceeds from sale of capital assets	**4**	8
Other assets	**6**	(65)
	(253)	(185)
Cash flows from (used in) financing activities		
Repayment of long-term debt	**(17)**	(84)
Return of contributed capital	**—**	(200)
Dividend paid	**(12)**	(12)
	(29)	(296)
Net increase (decrease) in cash and cash equivalents	**220**	(200)
Cash and cash equivalents, beginning of year	**411**	611
Cash and cash equivalents, end of year	**$ 631**	$ 411
Supplementary Cash Flow Information		
Interest paid	**$ 20**	$ 24
Income taxes paid	**$ 22**	$ 7

The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheet

As at (in millions of dollars)	**March 25 2000**	March 27 1999
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	**$ 631**	$ 411
Accounts receivable	**372**	346
Prepaid expenses	**52**	69
	1,055	826
Segregated cash and investments (note 4)	**445**	417
Capital assets (note 5)	**1,421**	1,369
Other assets (note 6)	**174**	190
	$ 3,095	$ 2,802
LIABILITIES AND EQUITY OF CANADA		
Current liabilities		
Accounts payable and accrued liabilities	**$ 512**	$ 421
Salaries and benefits payable	**447**	327
Deferred revenues	**149**	160
Outstanding money orders	**36**	36
Current portion of long-term debt	**—**	17
	1,144	961
Long-term debt (note 7)	**150**	150
Termination and post-retirement benefits	**745**	698
	2,039	1,809
Equity of Canada	**1,056**	993
	$ 3,095	$ 2,802

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board:

Interim Chairman of the Board of Directors

Chairperson of the Audit Committee

Notes to Consolidated Financial Statements

(March 25, 2000)

1. INCORPORATION

The Corporation was established by the Canada Post Corporation Act in 1981 to operate a postal service on a self-sustaining financial basis while providing a standard of service that will meet the needs of the people of Canada. The Corporation is a Crown corporation included in Part II of Schedule III to the Financial Administration Act and is an agent of Her Majesty. The subsidiary, Purolator Holdings Ltd., formerly known as PCL Courier Holdings Inc., is managed independently, also on a self-sustaining financial basis.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. A summary of the significant accounting policies of the Corporation follows:

(a) Consolidation • The consolidated financial statements of the Corporation include the accounts of its wholly-owned subsidiaries, Canada Post International Limited and 2875039 Canada Limited (which has a controlling interest in Purolator Holdings Ltd.). The wholly-owned subsidiary, Canada Post Holdings Limited, subsequent to the transfer of its controlling interest in Purolator Holdings Ltd. (Purolator) to 2875039 Canada Limited, was liquidated on March 10, 2000. The consolidated financial statements also include Canada Post Corporation's share in the Electronic Post Office™ Partnership.

Goodwill arising on the acquisition of subsidiaries is amortized on a straight-line basis over 20 years. The carrying amount is reviewed annually to determine whether there has been an impairment in value, that is other than temporary.

(b) Fiscal year-end • Canada Post Corporation and its wholly-owned subsidiaries end their fiscal year on the last Saturday in March. Both the fiscal year ended March 25, 2000, and the fiscal year ended March 27, 1999, included 52 weeks.

With respect to Purolator, both the fiscal year ended March 31, 2000, and the fiscal year ended April 2, 1999, included 52 weeks.

(c) Capital assets and amortization • Land, buildings and equipment transferred from the Government of Canada on incorporation were recorded at their fair value at that date, determined as follows:

Land	• market value based on existing use
Buildings	• amortized replacement cost
Plant equipment, vehicles, sales counter and office furniture and equipment, and other equipment	• amortized replacement cost or original cost less estimated amortization

The market value of land and the amortized replacement cost of buildings transferred by the Government of Canada were determined by independent appraisals.

Acquisitions subsequent to incorporation are recorded at cost.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Corporation has an agreement with both the National Archives of Canada and the Canadian Museum of Civilization to operate, administer and maintain a Canadian Postal Archives and a Canadian Postal Museum, respectively, containing philatelic material, postal artifacts, a postal library and exhibits that trace the history of the mail and other memorabilia. These collections, exhibits and books of undetermined value are not for resale and are recorded at a nominal cost.

Amortization is provided on a straight-line basis over the estimated useful lives of the following assets:

Buildings	30 and 40 years
Leasehold improvements	Initial fixed lease term plus period of first renewal option
Plant equipment	3 to 30 years
Vehicles (other than passenger and light-duty commercial)	6 to 10 years
Sales counter and office furniture and equipment	3 to 20 years
Other equipment	5 to 15 years

Amortization is provided on a diminishing balance basis at an annual rate of 30 per cent for all passenger and light-duty commercial vehicles.

(d) **Revenue recognition** • Amounts received for which services have not been rendered prior to the end of the year are deferred.

(e) **Termination and post-retirement benefits** • Canada Post employees are entitled to specified termination benefits, calculated at salary levels at the time of termination, as provided under collective agreements or conditions of employment. The present value of the projected costs of termination benefits, as determined by actuarial valuation, is recorded in the accounts as a long-term liability using an accrued benefits method. Such benefits accruing to employees, as well as gains and losses arising from actuarial valuation, are included in current operations.

In addition, Canada Post provides certain health care benefits to eligible retirees. Current service costs have been determined by actuarial valuation and included in current operations using an accrued benefits method. Past service costs have also been determined by actuarial valuation and are being amortized over the expected average remaining service life of the employee population.

Purolator employees are not entitled to these termination and post-retirement benefits.

(f) **Pension plan** • Canada Post employees are presently covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions made by the Corporation to the Plan are limited to an amount equal to the employees' contributions on account of current service. These contributions, which amounted to $104 million (1999 – $96 million), are included in current operations. Currently, the Corporation is not required to make contributions with respect to actuarial deficiencies or indexation payments under the Public Service Superannuation Act.

Substantially all of Purolator's full-time and eligible part-time employees are covered by defined benefit and defined contribution pension plans. The cost of pension benefits earned by employees in defined benefit pension plans is determined using the projected benefit method prorated on service and is charged to expense as services are rendered. Adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized over the estimated average remaining service life of the employee groups. The actuarial value of pension assets represents the market value of these assets. The actuarial present value of accrued pension benefits attributed to service rendered up to March 25, 2000 is $55 million (1999 – $39 million), and the approximate market value of the Company's pension fund assets as at March 25, 2000 is $62 million (1999 – $47 million).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Income taxes • The Corporation follows the deferral method of income tax allocation.

(h) Measurement uncertainty • The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates; however, such differences would not be expected to have a material impact on these financial statements.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and investments rated R-1 with maturities, at the date of purchase, of less than 12 months. Such investments are carried at cost, which approximates fair value due to the short period to maturity. The weighted average internal rate of return on the investments held as at March 25, 2000 is 5.3% (1999 – 5.0%).

4. SEGREGATED CASH AND INVESTMENTS

The Corporation has segregated certain cash and investments for the sole purpose of managing cash flows relating to the employee termination benefits liability. Investments are valued at amortized cost. These investments are held in investment grade securities with maturities currently ranging from 1 month to 6 years. The weighted average internal rate of return on the investments held as at March 25, 2000 is 6.10% (1999 – 6.72%).

The fair value of the investments represents their market value. The fair value of segregated cash and investments as at March 25, 2000 is $441 million (1999 – $428 million).

5. CAPITAL ASSETS

(in millions of dollars)			**2000**	1999
	Cost	**Accumulated amortization**	**Net**	**Net**
Land	$ 250	$ —	$ 250	$ 252
Buildings	1,234	755	479	505
Leasehold improvements	127	65	62	60
Plant equipment	740	461	279	224
Vehicles	90	81	9	8
Sales counter and office furniture and equipment	431	309	122	91
Other equipment	510	290	220	229
	$ 3,382	**$ 1,961**	**$ 1,421**	**$ 1,369**

6. OTHER ASSETS

(in millions of dollars)	2000	1999
Goodwill, net of charges	$ 150	$ 163
Other	24	27
	$ 174	$ 190

7. LONG-TERM DEBT

(in millions of dollars)	2000	1999
Non-redeemable bonds maturing March 2016, interest at 10.35%.	$ 55	$ 55
US$70 million Senior Notes issued in two series by Purolator, due March 2004: Series A US$40 million carrying interest at 10.08% with principal payments due in equal instalments over the last five years of the term and Series B US$30 million carrying interest at 9.83% with principal payments due over the term. The Notes are secured by substantially all of the assets of Purolator without recourse to Canada Post Corporation. Under the indenture, Purolator is subject to certain financial and other covenants throughout the term of the debt.	95	112
Purolator entered into a series of cross currency interest rate swaps in order to hedge the future U.S. dollar principal and interest payments into Canadian dollars at rates varying between $1.376 and $1.348 and an effective interest rate of 13.76%.		
	150	167
Less current portion	—	17
	$ 150	$ 150

Interest expense on long-term debt was $19 million (1999 – $20 million).

The annual amounts of principal payments to meet long-term debt obligations are as follows:

2001	$ —
2002	50
2003	23
2004	22
2005	—
2006 and thereafter	55
	$ 150

The fair value of the non-redeemable bonds maturing March 2016 is based on rates currently available to the Corporation for debt with similar terms and maturity. Their fair value as at March 25, 2000 is $79 million (1999 – $85 million).

7. LONG-TERM DEBT (continued)

Purolator has determined the fair value of the Senior Notes at March 25, 2000 as $104 million (1999 – $128 million) by calculating the cost of repaying the notes, as specified in the agreement with the noteholders. It is not Purolator's intention to repay this debt or these swaps prior to their maturity dates at which time they will be settled for their stated values in the financial statements.

Purolator has two currency swaps outstanding. The first swap hedges the principal and interest payments of the original Senior Notes. In 1996, Purolator entered into an additional currency swap arrangement to hedge the changes in the terms of the Senior Notes. The fair value of these swaps has been determined by the calculation of the cost of unwinding the swap with the counterparty at market rates. The fair market value for the swaps at March 25, 2000 is a loss of $6 million (1999 – loss of $3 million).

8. CHANGE IN NON-CASH WORKING CAPITAL

(in millions of dollars)	**2000**	1999
Increase in accounts receivable	$ (26)	$ (74)
Increase in accounts payable and accrued liabilities	91	34
Increase in salaries and benefits payable	120	2
Decrease in other non-cash working capital	6	1
	$ 191	$ (37)

9. CONTRIBUTED CAPITAL

The Canada Post Corporation Act provides for the establishment of a share capital structure. The Corporation is authorized to issue shares to the Government of Canada based on the net asset value of the Corporation on the date of the first issue of shares, as determined by the Board of Directors, with the approval of the Treasury Board. No such shares have been issued.

10. INCOME TAXES

On March 27, 1994, Canada Post Corporation became a prescribed Crown corporation for tax purposes and, as such is subject to federal income taxation under the Income Tax Act, Canada.

The Corporation's operating losses available for carry-forward amount to approximately $45 million (1999 – $161 million) and expire between 2002 and 2007. The potential benefit of utilizing these loss carry-forwards has not been recognized in these consolidated financial statements.

In addition, the Corporation has provisions, timing differences and tax depreciation in excess of book value of approximately $1,453 million (1999 – $1,237 million) available for utilization in future years.

11. CONTINGENCIES

(a) Two complaints have been filed with the Canadian Human Rights Commission alleging discrimination by the Corporation concerning work of equal value. The Corporation is still presenting its evidence before the Tribunal with respect to one complaint and the Commission has not begun its investigation of the second. The outcome of these complaints is not currently determinable. Settlement, if any, arising from resolution of these matters, will be recovered in future postal rates (as determined in accordance with the Canada Post Corporation Act) and/or from the Government of Canada. Accordingly, no amounts are recorded in these financial statements.

(b) The Corporation is involved in various claims and litigation in the normal course of business for which provisions have been made to the extent determinable.

(c) Employees are permitted to accumulate unused sick leave. However, such leave entitlements do not vest and can be used only in the event of illness. The amount of accumulated sick leave entitlements which will become payable in future years cannot reasonably be determined. Payments of sick leave benefits are included in current operations.

12. COMMITMENTS

The Corporation's future minimum payments with respect to computing and communications utility services, as well as facilities and other operating leases with terms in excess of one year, are as follows:

(in millions of dollars)	
2001	$ 190
2002	149
2003	128
2004	100
2005	71
2006 and thereafter	331
	$ 969

13. CONTRACTUAL OBLIGATION

On September 14, 1999, the Public Sector Pension Investment Board Act (the Act) received royal assent. The Act requires Canada Post to provide its eligible officers and employees with a registered pension plan and a supplementary pension plan (collectively the CPCPP) and a group term life insurance plan that will be at least equivalent to and in place of pension and life insurance benefits provided under the Public Service Superannuation Act and the Special Retirement Arrangements Act (collectively the PSSA) on September 30, 2000. Effective October 1, 2000, Canada Post will establish the CPCPP as defined benefit plans and a term life plan which will offer to Canada Post's eligible officers and employees pension and life insurance benefits at least equal to those earned under the PSSA. The CPCPP assets will be held in trust. The registered pension plan will be governed by the Pension Benefits Standards Act, 1985 and the CPCPP will be governed by the Income Tax Act (Canada). Canada Post will also introduce a post-retirement dental plan, effective October 1, 2000.

Pursuant to the Act, the Government of Canada has committed to transfer to the CPCPP assets from the PSSA that will be equivalent to the accrued pension obligation under the PSSA for those eligible Canada Post officers and employees as established by an actuarial valuation, as of September 30, 2000. Effective October 1, 2000, Canada Post will be fully liable for any future actuarial deficiencies under the CPCPP. The Government of Canada, as part of the pension transfer, has also committed to provide transitional support to assist Canada Post with incremental costs that will be incurred as a result of the establishment of the CPCPP and ancillary benefit.

14. RELATED-PARTY TRANSACTIONS

The Corporation had the following transactions with related parties in addition to those disclosed elsewhere in these consolidated financial statements.

(a) **Payments on behalf of postal users** • Where Government policy requires the Corporation to provide services at rates less than cost to the publications industry, and for concessionary services such as Government free mail, literature for the blind and Northern Air Stage Services, the Government of Canada compensates the Corporation for foregone postage revenue from those sources. Compensation amounting to $40 million (1999 – $58 million) is included in revenue from operations.

(b) **Real property** • The Corporation has incurred net operating costs of $10 million (1999 – $10 million) in respect of real property agreements with Public Works and Government Services Canada.

(c) **Other** • The Corporation has other transactions with the Government of Canada, its agencies and other Crown corporations in the normal course of business.

As a result of all of the above transactions, the amounts due from and to these parties are $23 million (1999 – $10 million) and $35 million (1999 – $26 million) respectively.

15. FINANCIAL INSTRUMENTS – OTHER

(a) **Fair values** • The amounts reported in the consolidated balance sheet for all other financial instruments approximate their fair values.

(b) **Concentration of credit risk** • The Corporation does not believe it is subject to any significant concentration of credit risk.

The amount reported in the consolidated balance sheet for accounts payable includes the impact of netting $449 million of gross accounts payable to foreign postal administrations against $402 million of gross accounts receivable from foreign postal administrations ($407 million of gross accounts payable and $419 million of gross accounts receivable in 1999), the basis used for these international settlements.

16. SEGMENTED INFORMATION

The Corporation has two operating segments: Canada Post and Purolator. These operating segments are determined on the basis of the legal entities which are managed independently, each on a self-sustaining financial basis.

The Corporation has four main product/service lines: communications, physical distribution, advertising and publications. Communications consist of Lettermail, and electronic hybrid services. Physical distribution consists of courier, expedited delivery and parcels. Advertising consists of admail. Publications consist of domestic and international newspapers and periodicals.

The Canada Post segment derives its revenues from all four product/service lines. The Purolator segment derives its revenues exclusively from physical distribution.

The accounting policies of the segments are the same as those described in the significant accounting policies (note 2).

Transactions occur between the two independent segments, Canada Post and Purolator, at normal commercial prices and terms comparable to those given to other customers and suppliers and without subsidy between the two segments. On this basis, Canada Post paid Purolator $16 million for air linehaul in 2000 (1999 – $17 million) and Purolator paid Canada Post $3 million for postage in 2000 (1999 – $3 million).

No individual customer's purchases account for more than 10% of revenues.

16. SEGMENTED INFORMATION (continued)

(in millions of dollars)		2000	
	Canada Post (52 weeks)	Purolator Holdings Ltd. (52 weeks)	Canada Post Corporation
Revenue from operations	$ 4,668	$ 969	$ 5,637
Income before the undernoted items	$ 241	$ 25	$ 266
Investment and other income	27	—	27
Amortization of capital assets and goodwill charges	(173)	(17)	(190)
Interest expense	(6)	(17)	(23)
Income taxes	(5)	—	(5)
Net income (loss)	$ 84	$ (9)	$ 75
Assets	$ 2,724	$ 371	$ 3,095
Liabilities	$ 1,795	$ 244	$ 2,039
Acquisition of capital assets and goodwill	$ 214	$ 22	$ 236

(in millions of dollars)		1999	
	Canada Post (52 weeks)	Purolator Holdings Ltd. (52 weeks)	Canada Post Corporation
Revenue from operations	$ 4,475	$ 905	$ 5,380
Income before the undernoted items	$ 188	$ 50	$ 238
Investment and other income	29	—	29
Amortization of capital assets and goodwill charges	(163)	(16)	(179)
Interest expense	(6)	(16)	(22)
Income taxes	(5)	(11)	(16)
Net income	$ 43	$ 7	$ 50
Assets	$ 2,415	$ 387	$ 2,802
Liabilities	$ 1,555	$ 254	$ 1,809
Acquisition of capital assets and goodwill	$ 148	$ 15	$ 163

17. YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

Canadian
Broadcasting
Corporation

Management's Responsibility for the Financial Statements

The financial statements and all other information presented in the annual report are the responsibility of management and have been reviewed and approved by the Board of Directors of the Corporation. These financial statements, which include amounts based on management's best estimates as determined through experience and judgement, have been properly prepared within reasonable limits of materiality and are in accordance with generally accepted accounting principles.

Management of the Corporation maintains books of account, records, financial and management control, and information systems, which are designed for the provision of reliable and accurate financial information on a timely basis. These controls provide reasonable assurance that assets are safeguarded, that resources are managed economically and efficiently in the attainment of corporate objectives, that operations are carried out effectively and that transactions are in accordance with the *Broadcasting Act* and the by-laws of the Corporation.

The Corporation's Internal Auditor has the responsibility for assessing the Corporation's systems, procedures and practices. The Auditor General of Canada conducts an independent audit of the annual financial statements and reports on his audit to the Canadian Broadcasting Corporation and the Minister of Canadian Heritage.

The Board of Directors' Audit Committee, which consists of four members, none of whom is an officer of the Corporation, reviews and advises the Board on the financial statements and the Auditor General's report thereto. The Audit Committee oversees the activities of Internal Audit and meets with management, the Internal Auditor and the Auditor General on a regular basis to discuss the financial reporting process as well as auditing, accounting and reporting issues.

Ottawa, Canada
June 19, 2000

President and CEO

Louise Tremblay
Senior Vice-President,
Resources

Auditor's **Report**

To the Board of Directors of the
Canadian Broadcasting Corporation
and the Minister of Canadian Heritage

I have audited the balance sheet of Canadian Broadcasting Corporation as at March 31, 2000 and the statements of operations and proprietor's equity and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Broadcasting Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part III of the *Broadcasting Act* and the by-laws of the Corporation.

L. Denis Desautels

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
June 2, 2000

Statement of
Operations and Proprietor's Equity

For the year ended March 31

	2000	1999
	(thousands of dollars)	
Revenue		
Advertising and program sales	328,705	329,735
Specialty services (Note 5)	97,046	90,471
Miscellaneous	78,817	63,859
	504,568	484,065
Expense		
Television and radio service costs	1,051,707	1,072,084
Specialty services (Note 5)	92,839	92,285
Transmission, distribution and collection	63,301	62,228
Radio Canada International	17,153	14,729
Payments to private stations	13,041	12,519
Corporate Management	15,273	16,204
Amortization of capital assets	154,872	161,205
Total expense before taxes	**1,408,186**	**1,431,254**
Net operating loss before government funding and taxes	(903,618)	(947,189)
Government Funding:		
Parliamentary appropriation for operating expenditures (Note 3)	764,715	759,481
Funding reserved for Radio Canada International (Note 4)	15,520	15,525
Amortization of deferred capital funding (Note 8)	154,449	160,763
	934,684	935,769
Net results of operations before taxes	31,066	(11,420)
Provision for income and large corporations taxes (Note 6)	2,751	2,745
Net results of operations for the year	**28,315**	**(14,165)**
Proprietor's equity, beginning of year	**(75,599)**	**(65,434)**
Working Capital Funding (Note 3)	4,000	4,000
Proprietor's equity, end of year	**(43,284)**	**(75,599)**

The accompanying notes form an integral part of the financial statements.

Balance Sheet

As at March 31

	2000	1999
	(thousands of dollars)	
Assets		
Current		
Cash and short-term investments	81,499	73,772
Accounts receivable	108,927	117,732
Program inventory	146,503	151,966
Prepaid expenses	43,462	22,665
	380,391	**366,135**
Capital assets (Note 7)	1,068,865	1,115,209
Deferred charges and other assets	14,557	27,154
	1,463,813	**1,508,498**
Liabilities		
Current		
Accounts payable and accrued liabilities	155,634	212,296
Employee-related liabilities (Note 10)	123,765	94,891
Obligations under capital leases (Note 11)	4,409	4,133
	283,808	**311,320**
Long-term		
Employee-related liabilities (Note 10)	161,243	167,429
Obligations under capital leases (Note 11)	376,935	381,260
Deferred capital funding (Note 8)	685,111	724,088
	1,223,289	**1,272,777**
Proprietor's Equity		
Proprietor's equity	(43,284)	(75,599)
Commitments and contingencies (Notes 12 and 13)		
	1,463,813	**1,508,498**

The accompanying notes form an integral part of the financial statements.

Approved on behalf of the Board of Directors:

Director

Champion

Director

Statement of **Cash Flow**

For the years ended March 31

	2000	1999
	(thousands of dollars)	
Operating Activities		
Net results of operations for the year	28,315	(14,165)
(Gain) loss on disposal of capital assets	74	(1,469)
Items not involving cash:		
Amortization of capital assets	154,872	161,205
Amortization of deferred charges	–	8,581
Employee-related liabilities (current)	9,361	880
Employee-related liabilities (long-term)	(6,186)	(142)
Amortization of deferred capital funding	(154,449)	(160,763)
Net change in working capital balances excluding cash and short-term investments (Note 15)	(34,675)	48,648
	(2,688)	**42,775**
Financing Activities		
Parliamentary appropriations (Note 3):		
Capital funding	110,472	132,954
Working capital funding	4,000	4,000
Government funding for capital purchases for RCI	5,000	5,000
Proceeds on disposal of capital assets/ financing from other organisations	2,166	2,104
	121,638	**144,058**
Investing Activities		
Acquisition of capital assets	(119,771)	(137,597)
Capital portion of lease payments	(4,049)	(3,802)
Deferred charges	12,597	(10,286)
	(111,223)	**(151,685)**
Increase in cash and short-term investments	**7,727**	**35,148**
Cash and short-term investments, beginning of year	73,772	38,624
Cash and short-term investments, end of year	**81,499**	**73,772**

The accompanying notes form an integral part of the financial statements.

Notes to the **Financial Statements**

For the year ended March 31, 2000

1. Authority and Objective

The Canadian Broadcasting Corporation was first established by the 1936 *Canadian Broadcasting* Act and continued by the 1958, 1968 and 1991 Broadcasting Acts. The Corporation is an agent of Her Majesty and all property acquired by the Corporation is the property of Her Majesty.

As the national public broadcaster, the Canadian Broadcasting Corporation provides radio and television services in both official languages incorporating predominantly and distinctively Canadian programs to reflect Canada and its regions to national and regional audiences.

2. Significant Accounting Policies

The financial statements include the accounts of the Corporation and its proportionate share of the assets, liabilities, revenues and expenses relating to joint venture activities. The financial statements have been prepared in accordance with generally accepted accounting principles. Significant accounting policies are set out below:

a. Parliamentary Appropriations and Deferred Capital Funding

The Government of Canada mainly finances the Corporation. Parliamentary appropriations provided for operating expenditures and downsizing expenses are recorded on the Statement of Operations and Proprietor's Equity. Parliamentary appropriations for depreciable capital expenditures are recorded as deferred capital funding on the Balance Sheet, and are amortized on the same basis and over the same periods as the related capital assets. Parliamentary appropriations for working capital and non-depreciable capital assets are credited to Proprietor's Equity.

b. Program Inventory

(i) **Program Inventory**

Programs completed and in process of production or available for sale are recorded at cost. Cost includes the cost of materials and services, and labour and overhead expenses applicable to programs.

Program costs are charged to operations as the programs are broadcasted, deemed unusable, or sold.

(ii) **Film and Script Rights**

The Corporation enters into contracts for film and script rights. As payments are made under the terms of each contract they are reflected in the account. The film rights are charged to operations in accordance with the approved program schedule or when deemed unusable.

c. Capital Assets

Capital assets are recorded at cost, less accumulated amortization. The cost of assets constructed by the Corporation includes material, direct labour and related overhead. Assets recorded as capital leases are initially recorded at the present value of the minimum lease payments at the inception of the lease. Amortization is calculated on the straight-line method using rates based on the estimated useful life of the assets as follows:

• Buildings	33 years
• Technical equipment	
Transmitters and towers	20 years
Other	5 years
• Furnishings and office equipment	10 years
• Computers	5 years
• Automotive	5 years

Leasehold improvements are capitalized and amortized over the remaining terms of the respective leases to a maximum period of five years. Amounts included in uncompleted capital projects are transferred to the appropriate capital asset classification upon completion, and are then amortized according to the Corporation's policy.

d. Deferred Charges

Deferred costs incurred in the development of specialty channels are amortized over the licence period. Deferred costs incurred by joint ventures are amortized over a period of five years. Other deferred charges are amortized over the period of the respective agreements.

e. Pension Cost and Obligation

The Corporation provides pensions based on length of service and final average earnings as classified under defined benefit retirement pension arrangements.

The cost of pension benefits earned by employees is determined using the projected benefit method of actuarial valuation with projected salary increases when appropriate, pro-rated on services and charged to operations as services are rendered. This cost reflects management's best estimate of the pension fund's expected investment yields, and of salary escalations, mortality of members, terminations and ages at which members will retire. The surplus on the introduction of this accounting policy, adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized over the estimated average remaining service life of the employee group.

The difference between the accumulated pension expense and the employer's contributions to the Pension Fund is reflected in the balance sheet as an employee-related liability.

f. Employee Termination Benefits and Vacation Pay

Employee termination benefits and vacation pay are expensed as the benefits accrue to employees under their respective terms of employment.

Termination benefits are calculated on an actuarial basis taking into account the future expected payments, the probabilities of payment and discount to the valuation date. The present value of the projected cost is recorded as an employee-related liability.

Vacation pay is calculated at the salary levels in effect at the end of the year for all unused vacation pay benefits accruing to employees.

Since a major portion of the liabilities for these items represents costs that will be funded mainly from appropriations received from the Government of Canada in the future, these items do not have an impact upon the Corporation's operating surplus or deficit on a government funding basis.

g. Measurement Uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Employee-related liabilities, estimated useful lives of capital assets and contingent liabilities are the most significant items for which estimates are used. Actual results could differ from those estimates.

3. Parliamentary Appropriations

Parliamentary appropriations approved and the amounts received by the Corporation during the year are as follows:

a. Parliamentary Appropriations Approved and Received

	2000	1999
	(thousands of dollars)	
Approved appropriations for:		
Operating Funding		
• Annual Funding	756,409	745,531
• Funding for downsizing & other costs	–	92,401
• Transfer from/(to) capital funding – Supplementary Estimates B [1]	8,306	(36,485)
• Frozen allotment to be reprofiled through Capital to the 1999-2000 fiscal year	–	(41,966)
	764,715	**759,481**
Capital Funding (Note 7)	143,472	94,469
• Additional funding – Supplementary Estimates B	–	2,000
• Transfer from/(to) operating funding – Supplementary Estimates B [1]	(8,306)	36,485
• Frozen allotment to be reprofiled to the 2000-2001 fiscal year	(24,694)	–
	110,472	132,954
• Capital funding received from the government for RCI	5,000	5,000
	115,472	**137,954**
Working Capital Funding	**4,000**	**4,000**

[1] In the event that significant changes in current year requirements occur, amounts are transferred from one vote to another or reprofiled from one fiscal year to the next through Appropriation Acts tabled in the House of Commons.

b. Reconciliation of Net Results of Operations to Government Funding Basis

The Corporation receives a significant portion of its funding through Parliamentary appropriations, which is based primarily on cash flow requirements. Items recognized in the Statement of Operations and Proprietor's Equity in one year may be funded through Parliamentary appropriations in different years. Accordingly, the Corporation has different net results of operations for the year on a government funding basis than on a generally accepted accounting principles basis. These differences are outlined below:

	2000	1999
	(thousands of dollars)	
Net results of operations for the year	**28,315**	**(14,165)**
Items expensed but funded in other years	**(19,658)**	**322**
Net results of operations on a government funding basis	**8,657**	**(13,843)**
Government funding surplus (deficit), beginning of the year	**15,601**	**29,444**
Government funding surplus (deficit), end of the year	**24,258**	**15,601**

c. Net Results for Capital

The Corporation's capital asset purchases are also financed through a Parliamentary appropriation. Certain items recognized as additions to assets in one year may be funded through Parliamentary appropriations in different years. Once again, the Corporation has different net results of operations for the year on a government funding basis than on a generally accepted accounting principles basis. These differences are outlined below:

	2000	1999
	(thousands of dollars)	
Parliamentary appropriations and transfers	110,472	132,954
Government funding for Radio Canada International	5,000	5,000
Parliamentary appropriations and government funding	**115,472**	**137,954**
Proceeds on disposal of capital assets/financing from other organizations	2,166	2,104
Total capital funding for the year	**117,638**	**140,058**
Acquisition of capital assets	(119,771)	(137,597)
Capital funding surplus (deficit) for the year	**(2,133)**	**2,461**
Change in proportionate share of joint venture assets	321	375
Net results for capital for the year, government funding basis	(1,812)	2,836
Government funding surplus (deficit), beginning of the year	4,726	1,890
Government funding surplus, end of the year	**2,914**	**4,726**

4. Funding for Radio Canada International

	2000	1999
	(thousands of dollars)	
Contribution agreement with Government of Canada	15,520	15,525
Operating Funding	**15,520**	**15,525**
Capital Funding	**5,000**	**5,000**
Total Funding for Radio Canada International	**20,520**	**20,525**

5. Specialty Services

The Corporation operates CBC Newsworld, Réseau de l'information (RDI) and Galaxie under licence conditions that the operations be reported on an incremental cost and revenue basis. CBC Newsworld and Réseau de l'information (RDI) use previous years' surplus carryforwards to fund current year activities. At March 31, the cumulative net operating surplus carried forward to future years' activities for CBC Newsworld totalled $5.2 million ($0.9 million for 1999) and $24,000 for RDI ($133,000 for 1999). Fiscal year 1999-2000 was Galaxie's third year of operations and the results are according to plan.

	March 31, 2000			March 31, 1999		
	Revenue	Expense	Net	Revenue	Expense	Net
			(thousands of dollars)			
CBC Newsworld	58,827	54,511	4,316	56,387	57,663	(1,276)
RDI	35,020	35,129	(109)	33,327	33,227	100
Galaxie	3,199	3,199	–	757	1,395	(638)
	97,046	**92,839**	**4,207**	**90,471**	**92,285**	**(1,814)**

6. Income and Large Corporations Taxes

The Corporation is a prescribed federal Crown Corporation under Part LXXI of the Income Tax Regulations and is subject to the provisions of the *Income Tax Act* (Canada). The Corporation is not subject to provincial income taxes on its own activities.

The provision for income and large corporations tax is comprised of:

	2000	1999
	(thousands of dollars)	
Current tax expense	2,751	2,745
	2,751	2,745

The Corporation's net provision for tax results primarily from large corporations tax.

The Corporation has a loss carryforward for tax purposes of $30.5 million (1999 – $22.9 million), the benefit of which has not been recognized in the financial statements and which expire in 2005. The Corporation also has net timing differences of $50.4 million (1999 - $78.7 million) resulting from items reported for tax purposes in different periods than for accounting purposes, the benefit of which has not yet been recognized in the financial statements. These timing differences generally result from the accrual of pension and severance pay costs, and capital cost allowance on its long-term capital lease where funding for the lease obligation is provided over several years. Capital cost allowance is not claimed on other capital assets, as the related capital funding is usually received in full in the same year in which the asset is acquired.

7. Capital Assets

	Cost	Accumulated Amortization	Net Book Value	
			2000	1999
		(thousands of dollars)		
Land	34,772	–	34,772	35,501
Buildings	382,954	213,193	169,761	167,398
Technical equipment	1,151,606	819,143	332,463	351,703
Furnishings, office equipment and computers	110,182	63,616	46,566	25,261
Automotive	39,685	26,576	13,109	11,402
Leasehold improvements	6,031	3,829	2,202	993
Property under capital leases	512,178	107,174	405,004	419,579
Uncompleted capital projects	64,988	–	64,988	103,372
	2,302,396	1,233,531	1,068,865	1,115,209

Current year amortization expense of $15.1 million (1999 - $15.4 million) relating to property under capital lease is included in the amortization of capital assets on the Statement of Operations and Proprietor's Equity.

8. Deferred Capital Funding

	2000	1999
	(thousands of dollars)	
Balance, beginning of year	724,088	746,897
Government funding for capital expenditures (Note 3)	115,472	137,954
Amortization of deferred capital funding	(154,449)	(160,763)
Balance, end of year	**685,111**	**724,088**

9. Joint Venture Activities

a. Equity

The Corporation has net equity of $8.5 million (1999 - $5.5 million) in joint business ventures which is accounted for using the proportionate consolidation method.

b. Subsequent Event

In the first quarter of 2000-2001, the Corporation has announced, with its co-investor, the sale of the joint business ventures noted above. The total sale represents $155 million. The Corporation owned 50% of the joint business ventures.

10. Employee-related Liabilities

a. Employee-related Liabilities Include:

	Current		Long-term	
	2000	1999	2000	1999
		(thousands of dollars)		
Employee termination benefits	–	–	68,195	77,644
Vacation pay	48,319	38,958	–	–
Pension plan – note b)	–	–	83,964	89,785
Workforce reduction - note c)	27,934	–	9,084	–
Other	47,512	55,933	–	–
	123,765	94,891	161,243	167,429

Includes salary-related liabilities.

b. CBC Pension Plan

The Corporation maintains a contributory-defined benefit pension plan covering substantially all employees of the CBC. Retirement benefits are based on the length of pensionable service and on the average of the best five consecutive years of pensionable salary in the last 10 years of employment.

The accrued pension benefits are determined using the projected benefit method pro-rated on service and management's best estimate of future economic events.

Employees are required to contribute a percentage of their pensionable salary to the Plan, with the Corporation providing the balance of the funding, as required, based on actuarial valuations, which are made at least on a triennial basis.

Projections from an actuarial valuation prepared for accounting purposes show an estimated present value of accrued pension benefits of $2,867.3 million as at March 31, 2000 (1999 - $2,757.7million) which includes $23.0 million (1999 - $17.9 million) of unfunded retirement benefits. The actuarial value of the pension fund assets as at March 31, 2000 was $3,462.0 million (1999 - $3,138.6 million).

	2000	1999
	(thousands of dollars)	
Current service cost	47,128	51,032
Accrued interest on pension plan assets	(27,842)	(16,951)
Amortization of past service gains (net)	(41,197)	(27,780)
Adjustment for plan curtailment due to workforce reduction	23,112	–
Pension expense	1,201	6,301
Deferred pension liability, beginning of year	89,785	97,639
Pension expense	1,201	6,301
Pension Plan contributions and unfunded plan benefit payments	(7,022)	(14,155)
Deferred pension liability, end of year	83,964	89,785

c. Workforce Reduction

The Corporation has announced a transformation plan for the Corporation. This plan will result in the departure of employees. Management's best estimate of the cost related to this multi-year workforce reduction plan is $37 million.

11. Obligations Under Capital Leases

a. Capital leases consist mainly of premises occupied by CBC in Toronto.

Future minimum lease payments and obligations are as follows:

	(thousands of dollars)
2001	33,088
2002	33,039
2003	33,039
2004	33,039
2005	33,039
Thereafter to 2027	743,373
Total future minimum payments	908,617
Deduct imputed interest (7.53%) and executory costs	527,273
Obligation under capital lease	381,344
Less current portion	4,409
Long-term portion	**376,935**

CBC owns the land on which the Toronto Broadcast Centre is located. Interest relating to the Toronto Broadcast Centre lease, which is included in current year expenditures, is $28.8 million. At the end of the lease, CBC will own the building.

b. Other

As at March 31, 2000, the Corporation's obligation relating to a Joint Venture capital lease, amounted to $49,260.

12. Commitments

a. Program-related and Other

As at March 31, 2000, commitments for sports rights amounted to $387.2 million; procured programs, film rights and co-productions amounted to $44.7 million and capital assets amounted to $9.4 million for total commitments of $441.3 million.

b. Operating Leases

Future annual payments related to operating leases are as follows:

	(thousands of dollars)
2001	48,607
2002	39,479
2003	15,380
2004	2,155
2005 - 2028	7,999
Total future payments	**113,620**

c. Joint Venture Activities

The Corporation's proportionate share of commitments related to joint venture activities totalled $3.9 million.

13. Contingencies

Various claims and legal proceedings have been asserted or instituted against the Corporation, including some, which demand large monetary damages or other relief, which could result in significant expenditures. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable. A provision for these expenditures has been recorded based on management's best estimate. It is reasonably possible that the Corporation may have to settle some of these claims for amounts in excess of established provisions in the near term. Any such costs will be charged to operations as incurred.

14. Related Party Transactions

The Corporation is related in terms of common ownership and enters into transactions with other Government departments, agencies and Crown Corporations in the normal course of business on normal trade terms applicable to all individuals and enterprises. Transactions with the Government of Canada are outlined in Note 3.

15. Net Change in Non-cash Working Capital Balances

	2000	1999
	(thousands of dollars)	
Cash flows provided by (used for):		
Accounts receivable	8,805	66,094
Program inventory*	14,466	(61,308)
Prepaid expenses	(20,797)	12,429
Accounts payable and accrued liabilities	(56,662)	(24,500)
Employee-related liabilities	19,513	55,933
	(34,675)	48,648

Excluding $9.0 million of amortization of capital assets in 2000 and $2.7 million in 1999.

16. Financial Instruments

Short-term investments, accounts receivable and accounts payable, are valued at cost, which approximates fair value. The Corporation invests in the short-term money market (maximum term to maturity 91 days). Securities are limited to those that are 100% guaranteed by the Government of Canada. The overall portfolio yield for the fiscal year ending March 31, 2000 was 5.13% (4.72% at March 31, 1999).

17. Comparative Figures

Certain of the 1999 comparatives figures have been reclassified to conform to the current year's presentation.

Canadian
Commercial
Corporation

Management Responsibility for Financial Statements

The financial statements of the Canadian Commercial Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors. The statements have been prepared in accordance with generally accepted accounting principles, using management's best estimates and judgements, where appropriate. Financial information presented elsewhere in the annual report is consistent with the statements.

In discharging its responsibility for financial reporting, management maintains and relies on financial and management control systems and practices which are designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records are maintained. These controls and practices are intended to ensure the orderly conduct of business, the accuracy of accounting records, the timely preparation of reliable financial information and adherence to corporate policies and statutory requirements.

The Audit Committee oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting. The Corporation's external auditors have full and free access to the Audit Committee to discuss the results of their work and to express their concerns and opinions.

The independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation, and for issuing his report thereon.

Doug Patriquin

Douglas Patriquin
President

Paul Thoppil

Paul Thoppil
Chief Financial Officer

Ottawa, Canada
June 2, 2000

Auditor's Report

To the Minister for International Trade

I have audited the balance sheet of the Canadian Commercial Corporation as at March 31, 2000 and the statements of operations and retained earnings and cash flow for the year then ended. These financial statements are the responsibliity of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Commercial Corporation Act* and the by-laws of the Corporation.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 2, 2000

Balance Sheet

As at March 31, 2000
(in thousands of dollars)

ASSETS	2000	1999
Cash and short-term deposits (Note 3)	$ 50,806	$ 51,770
Accounts receivable (Note 4)	188,379	160,691
Advances to suppliers	41,940	29,010
Progress payments to suppliers	75,295	44,731
	$ 356,420	$ 286,202

LIABILITIES		
Accounts payable and accrued liabilities (Note 4)	$ 189,941	$ 168,841
Advances from customers	58,398	48,852
Progress payments from customers	75,840	44,065
Provision for additional contract costs (Note 5)	2,819	279
	326,998	262,037
Employee termination benefits	1,064	998
	328,062	263,035
Contingencies (Note 7)		

EQUITY OF CANADA		
Repayable working capital appropriation (Notes 1 and 8)	5,000	–
Contributed surplus (Note 1)	15,000	15,000
Retained earnings	8,358	8,167
	23,358	23,167
	28,358	23,167
	$ 356,420	$ 286,202

The accompanying notes are an integral part of the financial statements.

Approved by the Board:

Doug Patriquin
President

Director

Statement of Operations and Retained Earnings

for the year ended March 31, 2000

(in thousands of dollars)

REVENUES	**2000**	**1999**
Contract billings (Note 9)	$ 897,726	$ 788,709
Interest and other income	2,812	1,880
Cost recovery	3,183	1,747
Gain (loss) on foreign exchange	(728)	1,040
	902,993	793,376

EXPENSES		
Cost of contract billings	897,726	788,709
Additional contract costs	3,345	1,057
Administrative expenses	14,279	13,403
	915,350	803,169

Net results of operations before parliamentary appropriation	(12,357)	(9,793)
Parliamentary appropriation (Note 8)	12,548	10,443
Net results of operations	191	650
Retained earnings at beginning of year	8,167	7,517
Retained earnings at end of year	$ 8,358	$ 8,167

The accompanying notes are an integral part of the financial statements.

Cash Flow Statement

for the year ended March 31, 2000
(in thousands of dollars)

CASH FLOWS FROM OPERATING ACTIVITIES	2000	1999
Receipts from customers	$ 911,846	$ 800,123
Interest and other income received	5,995	3,627
Payments to suppliers	(920,611)	(801,604)
Administrative payments	(15,014)	(13,499)
Cash flows used in operating activities (Note 13)	$ (17,784)	$ (11,353)

CASH FLOWS FROM FINANCING ACTIVITIES		
Parliamentary appropriation - operating	$ 12,548	$ 10,443
Parliamentary appropriation - contributed surplus	–	5,000
Parliamentary appropriation - repayable working capital appropriation	5,000	–
Cash flows from financing activities	$ 17,548	$ 15,443
Effect of exchange rate changes on cash and short-term deposits	(728)	1,040
(Decrease) increase in cash and short-term deposits	(964)	5,130
Cash and short-term deposits at beginning of year	51,770	46,640
Cash and short-term deposits at end of year	$ 50,806	$ 51,770

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

March 31, 2000

1. Nature, Organization and Funding

The Corporation was established in 1946 by the *Canadian Commercial Corporation Act* (the Act) and is an agent Crown corporation listed in Part I of Schedule III to the *Financial Administration Act*.

The Corporation generally acts as the prime contracting agency when other countries and international organizations wish to purchase products and services from Canada. Contracts are made with foreign governments, international organizations and other buyers. Corresponding supply contracts are entered into with Canadian firms by the Corporation.

The Government has provided the Corporation with $15 million as contributed surplus and a $5 million repayable working capital appropriation. The Corporation also has authority to draw loans from the Consolidated Revenue Fund, subject to Minister of Finance approval, in amounts up to a total of $10 million as required to supplement its working capital. Annually, the Corporation's operations are primarily funded through a parliamentary appropriation.

The Corporation is not subject to the provisions of the *Income Tax Act*.

2. Significant Accounting Policies

These financial statements are prepared in accordance with generally accepted accounting principles. A summary of significant policies follows:

(a) Contracts

The Corporation records its contract billings, and related costs, when a delivery has taken place thus passing title to the customer, or, in the case of progress payments, upon acceptance of progress billings from suppliers for work performed.

The Corporation uses the percentage-of-completion method when accounting for contracts involving progress payments. The cost of contract billings and related revenues are recognized on receipt of progress billings from suppliers. Since title has not yet passed to customers, the Corporation recognizes the progress payments made to suppliers as an asset and the progress payments received from customers as a liability. The related progress payments are reduced upon completion of delivery and acceptance by the customer.

Progress payments from customers and to suppliers, represent payments made by foreign buyers and to Canadian exporters respectively on contracts where the partial recoupment of costs (usually up to 80%), associated with the work performed on a contract leading up to delivery, is allowed. Given that the payment flows through to the Canadian exporter, the liabilities are essentially offset on the asset side of the balance sheet.

Advances from customers and to suppliers represent a down payment made at the outset of the contract, before any work has been performed.

Additional contract costs incurred primarily as a result of suppliers failing to fulfil their obligations to the Corporation are determined on a contract-by-contract basis. These costs are recorded in the statement of operations in the year in which the non-performance is identified and the additional costs to be incurred by the Corporation are reasonably determinable.

The Corporation recovers its costs on a number of its contracts, mainly international sales. Its ability to recover costs is governed by the Act and international agreements. Amounts are recognized as earned.

(b) Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates. Revenues and expenses are translated at the average exchange rates for the month in which the transactions occur.

Contracts with foreign customers and corresponding contracts with Canadian suppliers are generally entered into in the same currency. The Corporation uses this and other techniques in order to effectively transfer currency risk to the supplier.

Working capital is maintained in currencies other than Canadian dollars to facilitate the cash flow between foreign customers and Canadian suppliers.

(c) Parliamentary Appropriation

Parliamentary appropriations for annual operating costs are recorded in the Statement of Operations and Retained Earnings in the year for which they are approved.

(d) Pension Plan

Employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. Under present legislation, contributions made by the Corporation to the Plan are limited to an amount equal to the employees' contributions on account of current service. These contributions represent the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not required under present legislation to make contributions with respect to any actuarial deficiencies of the Public Service Superannuation Account.

(e) Employee Future Benefits

Employees of the Corporation are entitled to specified termination benefits, calculated at salary levels in effect at the time of termination, as provided for under collective agreements and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to employees.

The liability for employee termination benefits is estimated by management based on current entitlements.

3. Cash and Short-term Deposits

As at March 31, 2000, cash and short-term deposits include:

(in thousands)	Year ended March 31 2000		1999	
	Original Currency	**Canadian Dollars**	**Original Currency**	**Canadian Dollars**
Canadian dollars	$29,221	$29,221	$27,381	$27,381
U.S. dollars	14,039	20,349	13,707	20,680
Australian dollars	791	697	2,594	2,482
German deutsche mark	516	368	527	440
British pound sterling	74	171	323	787
		$50,806		$51,770

The Corporation invests in short-term deposits in Canadian Schedule A or B banks. At March 31, 2000, the average term to maturity was three days (1999 - one day). The overall portfolio yield at March 31, 2000 was 5.7%(1999 - 4.9%). Cash and short-term deposits are recorded at cost which approximates market value.

Of the cash and short-term deposits, $25,639,000 (1999 - $35,695,000) represents funds received from foreign customers which will be remitted to Canadian suppliers at later dates in accordance with contracts. Where contracted, these funds may accrue interest to the credit of the Canadian exporter or foreign customer.

4. Accounts Receivable and Accounts Payable and Accrued Liabilities

Accounts receivable are due on normal international trade terms and are generally non-interest bearing.

Accounts payable are due on normal trade terms, except those due to small and medium sized enterprises which are paid within 15 days. In neither case does interest accrue.

5. Provision for Additional Contract Costs

The Corporation may incur additional contract costs should suppliers not fulfil the terms of their contracts. The Corporation has recorded a provision of $2,819,000 as of March 31, 2000 (1999 - $279,000), representing management's best estimate of the additional costs which will be incurred by the Corporation to meet its contractual obligations.

6. Contractual Obligations

The Corporation is obligated to complete numerous contracts with foreign customers. As of March 31, 2000, the total contract value remaining to be fulfilled approximates $1.1 billion (1999 - $1.1 billion).

Under the Progress Payment Program the Corporation also indemnifies participating banks for amounts they have advanced to Canadian suppliers. To offset these indemnities, the Corporation may claim title to the works in progress should a Canadian exporter fail to complete a contract. The amount of outstanding indemnities as of March 31, 2000 is $9,331,000 (1999 - $6,804,000).

7. Contingencies

In 1997, the Corporation was served with a statement of claim arising from its contracting operations. While the damages being claimed by the plaintiffs are significant, based on advice from legal counsel, the potential liability of the Corporation and consequent damages arising from such a liability are, at present, not determinable.

Amounts, if any, payable on claims by the Corporation will be recorded in the year in which they can be determined.

8. Repayable Working Capital Appropriation

During the year, the Corporation received appropriations in the amount of $17,548,000 from the Government of Canada. Of this amount, Treasury Board indicated that $5,000,000 was a recoverable working capital advance and, accordingly, the Corporation has recorded the amount as a repayable working capital appropriation. The contribution is recoverable through reductions of the Corporation's funding levels as follows: $2,500,000 in fiscal year 2001-02 and $2,500,000 in fiscal year 2002-03.

The remaining $12,548,000 was provided for this year's annual operating costs and has been recorded in the statement of operations and retained earnings.

9. Contract Billings

Contract billings are distinct from Corporate business volume which is the term used to describe the total value of contracts and amendments signed during the year. Business volume for the year ended March 31, 2000 amounted to $1.1 billion (1999 - $748 million).

Contract billings arising from the Corporation's facilitations of sales of Canadian goods to foreign governments, international agencies and other buyers throughout the world were distributed as follows:

	Year ended March 31	
(in thousands of dollars)	2000	1999
U.S. Government and Buyers	$ 645,670	$ 527,393
Other Foreign Governments and Buyers	222,380	242,869
United Nations Agencies	29,676	18,447
	$ 897,726	$ 788,709

10. Related Party Transactions

The Corporation is related in terms of common ownership to all Government of Canada-created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

The Corporation had the following transactions with related parties in addition to those disclosed elsewhere in these financial statements.

(a) Public Works and Government Services Canada

Generally, Public Works and Government Services Canada provides contract management services to the Corporation at negotiated rates based in part on the amounts of contracts procured, and provides certain functions at cost. For the year ended March 31, 2000 the cost of these services amounted to $3,700,000 (1999 - $3,083,000) and are included in administrative expenses.

In one circumstance, Public Works and Government Services Canada provides the Corporation with contract management services at no additional cost. It is estimated that the cost of this service would approximate $1 million based on the amount that was transfered from the Corporation's funding level, to Public Works and Government Services Canada. The value of these services is not recorded in the Corporation's accounts.

(b) Department of Justice

The Department of Justice represents the Corporation in certain matters. The Corporation pays for legal fees and expenses incurred in connection with specific actions. For the year ended March 31, 2000 the cost of legal fees and expenses for specific actions amounted to $434,000 (1999 - $479,000) and are included in administrative expenses.

As a result of all related party transactions, the amounts due from and to these parties are $506,000 (1999 - $136,000) and $574,000 (1999 - $888,000) and are included in the accounts receivable and accounts payable respectively.

11. Insurance

The Corporation carries default insurance that covers it against additional contract costs in excess of $4 million per annum, with a maximum coverage of $75 million.

In addition, the Corporation carries specific insurance relating to fraud, computer hardware and software, office furniture and fixtures, and travel accident and medical.

12. Lease Commitments

Effective October 1, 1995, the Corporation entered into a 10-year lease agreement for office space. The annual payments for the duration of the lease will approximate $775,000.

13. Reconciliation of Net Results of Operations before Parliamentary Appropriation to Cash Used in Operating Activities

Year ended March 31

(in thousands of dollars)	2000	1999
Net results of operations before parliamentary appropriation	$ (12,357)	$ (9,793)
Adjustments to reconcile net results to net cash used by operating activities:		
(Increase) decrease in accounts receivable	(27,688)	19,180
(Increase) decrease in advances to suppliers	(12,930)	11,654
(Increase) in progress payments to suppliers	(30,564)	(4,841)
Increase (decrease) in accounts payable and accrued liabilities	21,100	(17,618)
Increase (decrease) in advances from customers	9,546	(13,314)
Increase in progress payments from customers	31,775	5,676
Increase (decrease) in provision for additional contract costs	2,540	(1,243)
Increase (decrease) in employee termination benefits	66	(14)
Total adjustments	(6,155)	(520)
Loss (gain) on foreign exchange	728	(1,040)
Cash used in operating activities	$ (17,784)	$ (11,353)

Canadian
Dairy
Commission

6

Financial Statements

Management Responsibility for Financial Statements

The financial statements of the Canadian Dairy Commission and all information in this Annual Report are the responsibility of management. The statements have been prepared in accordance with generally accepted accounting principles, using management's best estimates and judgements where appropriate. Financial information presented elsewhere in the Annual Report is consistent with the statements provided.

In discharging its responsibility for financial reporting, management maintains and relies on financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records are maintained. These controls and practices ensure the orderly conduct of business, the accuracy of accounting records, the timely preparation of reliable financial information and the adherence to Commission policies and statutory requirements. The process includes management's annual communication to employees of Treasury Board's guidelines on conflict of interest and code of conduct.

The Audit committee of the Canadian Dairy Commission made up of the Commissioners, oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting. The Commission's internal and external auditors have free access to the Audit Committee to discuss the results of their work and to express their concerns and opinion.

The transactions and financial statements of the Commission have been audited by the Auditor General of Canada, the independent auditor for the Government of Canada.

Guy Jacob, Chairman

Paul Simard

Paul Simard, Director of Finance

Ottawa, Canada
September 20, 1999

Auditor's Report

To the Minister of Agriculture and Agri-Food,

I have audited the balance sheet of the Canadian Dairy Commission as at July 31, 1999 and the statement of operations and funding by producers, the statement of dairy support program operations and costs funded by the Government of Canada and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at July 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Commission that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Dairy Commission Act* and the by-laws of the Commission.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
September 24, 1999

Balance Sheet

as at July 31, 1999

	1999 *(in thousands)*	1998 *(in thousands)*
Assets		
Cash	**$ 4,823**	$ 1,156
Accounts receivable		
Trade (Note 4)	**3,792**	18,505
Government of Canada (Dairy Support Program)	**18,488**	26,998
Due from provincial milk marketing boards and agencies	**2,340**	5,711
Inventories (Note 5)	**90,479**	99,430
Ocean containers	**—**	212
	$119,922	$152,012
Liabilities		
Bank indebtedness—Pooling account (Note 6)	**$ 1,124**	$ 1,902
Accounts payable		
Accounts payable—Trade	**16,650**	24,777
Accrued liabilities	**6,121**	2,621
Subsidies payable to producers	**18,355**	26,851
Loans from Government of Canada (Note 7)	**64,730**	82,204
	106,980	138,355
Excess of funding by producers (Note 8)	**12,942**	13,657
	$119,922	$152,012

Commitments (Notes 11 and 13)

Approved:

Chairman

Vice-chairman

Paul Simard

Director of Finance

The accompanying notes and schedule are an integral part of these financial statements.

Statement of Dairy Support Program Operations and Costs Funded by the Government of Canada

for the year ended July 31, 1999

	1999 *(in thousands)*	1998 *(in thousands)*
Subsidies to producers of industrial milk and cream	**$112,698**	$141,240
Administrative expenses	**2,279**	2,385
Costs of production and dairy policy studies	**432**	488
Total costs funded by the Government of Canada (Note 9)	**$115,409**	$144,113

The accompanying notes and schedule are an integral part of these financial statements.

Statement of Operations and Funding by Producers

for the year ended July 31, 1999

	1999 *(in thousands)*	1998 *(in thousands)*
Export sales	**$134,295**	$211,085
Cost of sales	**130,934**	201,917
Margin on export sales	**3,361**	9,168
Domestic sales	**99,510**	118,156
Cost of sales	**94,700**	113,962
Margin on domestic sales	**4,810**	4,194
Total margin on sales	**8,171**	13,362
Assistance and expenses	**10,548**	18,319
Total Cost of Operations	**2,377**	4,957
Less portion of administrative expenses funded by the Government of Canada	**2,279**	2,385
Net cost of operations funded by producers	**98**	2,572
Funding by producers	**6,296**	12,865
Excess of funding of net cost of operations	**6,198**	10,293
Excess (deficiency) of funding by producers at beginning of year	**13,657**	(2,792)
	19,855	7,501
(Refund) recovery of prior year balance	**(6,913)**	6,156
Excess of funding by producers at end of year	**$ 12,942**	$ 13,657

The accompanying notes and schedule are an integral part of these financial statements.

Statement of Cash Flows

for the year ended July 31, 1999

	1999 *(in thousands)*	1998 *(in thousands)*
Cash flows from operating activities		
Cash receipts from customers	**$ 248,749**	$ 318,967
Cash paid to suppliers and others	**(230,254)**	(315,014)
Cash receipts from producers	**8,889**	11,927
Cash receipts from the Government of Canada	**123,919**	141,062
Subsidies paid to producers	**(121,194)**	(138,197)
Interest paid	**(2,158)**	(3,029)
Cash flows from operating activities	**27,951**	15,716
Cash flows from investing activities		
Purchase of ocean containers	**—**	(344)
Proceeds from sale of ocean containers	**103**	58
Cash flows from (used in) investing activities	**103**	(286)
Cash flows from financing activities		
Cash receipts from (paid to) producers for prior year funding balance	**(6,913)**	6,156
Cash flows from (used in) financing activities	**(6,913)**	6,156
Net increase in cash and cash equivalents	**21,141**	21,586
Cash and cash equivalents at beginning of year	**(81,048)**	(102,634)
Cash and cash equivalents at end of year	**$ (59,907)**	$ (81,048)
Cash and cash equivalents include:		
Cash	**$ 4,823**	$ 1,156
Loans from Government of Canada	**(64,730)**	(82,204)
	$ (59,907)	$ (81,048)

The accompanying notes and schedule are an integral part of these financial statements.

Notes to Financial Statements

July 31, 1999

1. The Commission

The Canadian Dairy Commission (the "Commission"), is an agent Crown corporation named in Part I, Schedule III to the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*. The objects of the Commission, as established by the *Canadian Dairy Commission Act* (CDC Act), are "to provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality".

The Commission administers the dairy support program funded by the Government of Canada, under which it makes subsidy payments to producers. In co-operation with the Canadian Milk Supply Management Committee (CMSMC), which it chairs, the Commission undertakes the management and administration of operations funded by producers. The results of the Commission's operations in each of these areas are presented in the Statement of Dairy Support Program Operations and Costs Funded by the Government of Canada, and in the Statement of Operations and Funding by Producers, respectively, in order to distinguish the accountability relationships for them.

The Commission purchases all butter and skim milk powder tendered to it at either the Canadian support price or at the international market price, depending on the intended resale markets. While a major portion of the butter purchased by the Commission is later resold in the domestic market, most of the skim milk powder is in excess of domestic needs and is exported. The Commission sells production surplus to domestic requirements in the form of whole milk products, skim milk powder and butter on international markets.

The Commission administers, on behalf of the industry, a pricing and pooling of market returns system which provides milk components to further processors and exporters through processors at competitive prices.

2. Significant Accounting Policies

Inventories

Inventories are valued at the lower of cost or estimated net realizable value. An allowance for write-down is recorded when cost exceeds the latter.

Allowance for losses on outstanding purchase commitments

The Commission establishes an allowance for losses on outstanding purchase commitments based on current contracts for export sales.

Foreign currency translation

Substantially all sales in foreign currencies are hedged by forward exchange contracts and are translated into Canadian dollars at the exchange rates provided therein. Sales in foreign currencies that are not hedged are translated into Canadian dollars at the exchange rate in effect on the transaction date.

Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Commission's contributions to the plan are limited to matching the employees' contributions for current service. These contributions are entered as an expense during the year in which services are rendered and represent the total pension obligations of the Commission.

3. Fair value of financial instruments

The transactions related to cash, accounts receivable, bank indebtedness, loans from the Government of Canada and accounts payable are incurred in the normal course of business. The carrying amounts of each of these accounts approximate their fair values because of their short-term maturity.

4. Accounts receivable — Trade

Most of the trade accounts receivable are in foreign currencies and their Canadian dollar value has been translated at the rate to be paid under the foreign exchange contracts as further explained in Note 10. These foreign accounts receivable are guaranteed by letters of credit, are payable on demand and are non-interest bearing.

5. Inventories

	1999 *(in thousands)*	1998 *(in thousands)*
Butter	**$ 62,726**	$ 52,512
Skim milk powder	**27,678**	44,226
Other dairy products	**75**	2,692
	$ 90,479	$ 99,430

6. Bank indebtedness—Pooling account

To provide bridge financing and ensure the efficient operation of the pricing and pooling of market returns system, the Commission established a $10 million line of credit with a member of the Canadian Payments Association. The bank indebtedness incurred under this line of credit is due on demand and bears interest at prime which on July 31, 1999 was 6.25% per annum. The bank indebtedness is repaid monthly and is included in the amount due from provincial milk marketing boards and agencies.

As producer monies enter and leave the pooling account as equalization payments from and to provincial milk marketing boards and agencies, the line of credit ensures that payments can be made promptly. During the year, certain provincial milk marketing boards and agencies have contributed approximately $135 million (1998—$112 million) to the pool. These contributions have been used to make equalization payments to the other provincial milk marketing boards and agencies net of the Commission's administrative and other operating expenses recoverable from the producers. Equalization payments made in 1999 were $129 million (1998—$93 million).

7. Loans from Government of Canada

Loans from the Government of Canada, to a maximum of $100 million, are available to finance operations. Individual loans are repayable within one year from the date the loan is made. Principal and accrued interest are repaid regularly during the year when funds are available. During the year, new borrowings and repayments amounted to $173.2 million (1998—$223.8 million) and $190.7 million (1998—$245.0 million) respectively. Interest on the loans are at the normal rates established for Crown Corporations by the government and varied from 4.4249% to 5.7670% (1998—3.1257% to 4.7712%).

8. Excess of funding by producers

The excess of funding by producers at end of the year is made up of amounts relating to commercial sales (export and domestic) and an accumulated surplus of funding of the normal level of butter. These accumulated excesses will be carried forward and applied against future funding of their respective operations. Refunds or recoveries are recorded in the year in which they are authorized.

9. Costs funded by the Government of Canada (Dairy Support Program)

Agriculture and Agri-Food Canada provides funding to the Commission for subsidy payments to producers of industrial milk and cream shipments produced to meet domestic requirements. The rate of subsidy payments from August 1, 1998 to January 31, 1999 was $0.844 per kilogram of butterfat or $3.04 per hectolitre of milk containing 3.6 kilograms of butterfat (1998—$1.055 or $3.80 respectively) and was $0.632 per kilogram of butterfat or $2.28 per hectolitre from February 1, 1999 to July 31, 1999 (1998—$0.844 or $3.04 respectively).

As a result of a June 1997 Cabinet decision, subsidy payments will be gradually phased out with five annual rate reductions of $0.76 per hectolitre starting February 1, 1998. As of February 1, 2000, the rate will be $0.422 per kilogram of butterfat or $1.52 per hectolitre.

The Government of Canada has funded $2.3 million (1998—$2.4 million) of the Commission's administrative expenses of $5.5 million (1998—$5.5 million), as well as professional services relating to cost of production and dairy policy studies.

10. Forward Exchange Contracts

As part of its foreign exchange risk management, the Commission enters into forward exchange contracts with regard to a major portion of its export sales contracts. At the end of the dairy year the Commission's outstanding forward exchange contracts totaled $20 million Canadian (1998—$30 million Canadian) representing amounts in US dollars and euros. These contracts mature from August to November 1999. The maturity dates of the forward exchange contracts correspond to the estimated dates when the Commission should be receiving the foreign currency proceeds arising from the execution of the related export sales contracts.

11. Long term lease

The Commission is committed under a long term lease for office accommodation ending in 2003. The lease contains escalation clauses regarding maintenance costs and taxes. The remaining minimum lease payments totaled $781,407 at year-end. The minimum lease payments for the next five years are as follows:

1999–00	$191,365
2000–01	$191,365
2001–02	$191,365
2002–03	$191,365
2003–04	$15,947

12. Representatives' Fees

The Commission has used the services of representatives for the sale of dairy products on the export market. Total fees for the year were $1.4 million (1998—$5.8 million) and are included in cost of sales.

13. Purchase Commitments

As at July 31, 1999, the Commission was committed to purchase butter, skim milk powder and other dairy products produced prior to that date. These commitments amounted to approximately $2.9 million (1998—$8.0 million). No allowance for losses on outstanding purchase commitments was required as at July 31, 1999 and 1998.

14. Related Party Transactions

Government departments provided the Commission with certain administrative services without charge. The cost of these services is not recorded in the Commission's accounts.

15. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Commission, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

16. Appeal of a decision of the World Trade Organization

Following a challenge by the United States and New Zealand, the World Trade Organization found that certain aspects of the Canadian dairy marketing system are inconsistent with Canada's obligations under the *Agreement on Agriculture*. Canada launched an appeal to the World Trade Organization regarding this decision in order to have the decision revised. The World Trade Organization final decision has yet to be announced.

17. Financial Statement Presentation

Certain comparative amounts have been reclassified to conform with the presentation adopted in the current year.

Schedule of Marketing Operations by Product

for the year ended July 31, 1999

	1999 *(in thousands)*					1998 *(in thousands)*				
	Butter	Skim Milk Powder	Evaporated Milk	Other Products*	Total	Butter	Skim Milk Powder	Evaporated Milk	Other Products*	Total
Export sales	$14,320	$107,541	$5,910	$6,524	**$134,295**	$18,807	$88,680	$54,059	$49,539	$211,085
Cost of sales	11,849	107,522	5,317	6,246	**130,934**	15,917	85,438	52,501	48,061	201,917
Margin on export sales	2,471	19	593	278	**3,361**	2,890	3,242	1,558	1,478	9,168
Domestic sales	90,981	8,529	—	—	**99,510**	107,475	10,681	—	—	118,156
Cost of sales	86,777	7,923	—	—	**94,700**	104,802	9,160	—	—	113,962
Margin on domestic sales	4,204	606	—	—	**4,810**	2,673	1,521	—	—	4,194
Total margin on sales	$ 6,675	$ 625	$ 593	$ 278	**8,171**	$ 5,563	$ 4,763	$ 1,558	$ 1,478	13,362
Assistance and expenses										
Domestic dairy product assistance	$ 70	$ —	$ 454	$ —	**524**	$ 107	$ 5,259	$ 140	$ —	5,506
Carrying charges	2,971	1,577	36	57	**4,641**	4,469	1,896	300	568	7,233
Recovery of doubtful accounts	—	—	—	(231)	**(231)**	—	—	—	—	0
	$ 3,041	$ 1,577	$ 490	$ (174)	**4,934**	$ 4,576	$ 7,155	$ 440	$ 568	12,739
Administrative expenses					**5,549**					5,486
Pool interest and bank charges					**65**					94
Total assistance and expenses					**10,548**					18,319
Total cost of operations					**$ 2,377**					$ 4,957

**Include whole milk powder and cheese*

Canadian
Film
Development
Corporation

MANAGEMENT REPORT

The financial statements of the Canadian Film Development Corporation are the responsibility of management and have been approved by the Board of Directors of the Corporation. The financial statements have been prepared in accordance with generally accepted accounting principles and, where appropriate, include estimates based on the experience and judgement of management. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent with the financial statements.

Management maintains books of account, financial and management control, and information systems, together with management practices designed to provide reasonable assurance that reliable and relevant information is available on a timely basis, that assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, and that operations are carried out effectively. These systems and practices are also designed to provide reasonable assurance that transactions are in accordance with the *Financial Administration Act* and its regulations, the *Canadian Film Development Corporation Act* and the by-laws and policies of the Corporation.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting as stated above. The Board exercises its responsibilities through the Audit and Finance Committee, which consists of directors who are not officers of the Corporation. The Committee reviews the quarterly financial statements, as well as the annual financial statements and related reports; the Committee meets with the external auditors annually and, may make recommendations to the Board of Directors with respect to these and/or related matters.

The external auditor, the Auditor General of Canada, conducts an independent examination of the financial statements and reports to the Corporation and to the minister Designate of Canadian Heritage.

François Macerola
Executive Director

Danny Chalifour
Director, Finance and Administration

Montreal, Canada
May 26, 2000

AUDITOR'S REPORT TO THE MINISTER OF CANADIAN HERITAGE

I have audited the balance sheet of the Canadian Film Development Corporation as at March 31, 2000, and the statements of operations and equity of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000, and the results of its operations and its cash flow for the year then ended in accordance with generally accepted accounting principles. As required by the *Canadian Film Development Corporation Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Corporation and the financial statements are in agreement therewith and the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Canadian Film Development Corporation Act* and the by-laws of the Corporation.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 26, 2000

BALANCE SHEET

March 31, 2000, with comparative figures for 1999

	2000 in thousands of dollars	1999 in thousands of dollars
ASSETS		
Current assets		
Receivable from Canada [note 3]	**31,454**	27,777
Loans [note 4]	**1,348**	1,075
Accounts receivable	**4,090**	5,242
Prepaid expenses	**540**	681
	37,432	34,775
Loans [note 4]	**4,399**	5,340
Investments	**109**	109
Capital assets [note 5]	**2,113**	1,816
	44,053	42,040

See accompanying notes to financial statements

Approved by the Board:

Laurier L. LaPierre, O.C.
Chairman

	2000 in thousands of dollars	1999 in thousands of dollars
LIABILITIES AND EQUITY OF CANADA		
Current liabilities		
Accounts payable and accrued liabilities	**7,339**	8,145
Long-term liabilities		
Provision for employee termination benefits	**440**	773
Deferred lease inducements	**879**	83
Deferred capital funding (note 6)	**2,113**	1,816
Obligation under operating lease (note 7)	**996**	-
	4,428	2,672
Equity of Canada	**32,286**	31,223
Commitments (note 12)		
Contingencies (note 14)		
	44,053	42,040

See accompanying notes to financial statements

Approved by Management:

François Macerola
Executive Director

STATEMENT OF OPERATIONS AND EQUITY OF CANADA

Year ended March 31, 2000, with comparative figures for 1999

			2000	1999
	Investments in thousands of dollars	**Recoveries on investments** in thousands of dollars	**Net amount** in thousands of dollars	**Net amount** in thousands of dollars
ASSISTANCE EXPENSES				
Production and development				
Canadian Television Fund (note 10)	**95,763**	**(11,524)**	**84,239**	97,029
Feature Film Fund	**17,537**	**(3,065)**	**14,472**	17,256
Multimedia	**5,719**	**(298)**	**5,421**	1,103
Production Revenue Sharing Program	**1,702**	**(476)**	**1,226**	985
Official Co-productions	**1,286**	**(437)**	**849**	1,631
Commercial Production Fund	**211**	**(984)**	**(773)**	104
Others	**411**	**(89)**	**322**	329
	122,629	**(16,873)**	**105,756**	118,437
Distribution and marketing				
Feature Film Distribution Fund	**10,007**	**(6,337)**	**3,670**	5,829
National and International Marketing	**1,228**	**(155)**	**1,073**	1,389
	11,235	**(6,492)**	**4,743**	7,218
Versioning and subtitling	**2,087**	**(1,216)**	**871**	851
Complementary activities				
Pre-professional development	**2,285**	**-**	**2,285**	1,300
Industrial and professional development	**1,957**	**-**	**1,957**	1,536
Grants to Canadian festivals	**1,908**	**-**	**1,908**	1,879
Participation in foreign markets	**842**	**-**	**842**	724
Advertising, promotion and publications	**547**	**-**	**547**	457
Participation in foreign festivals	**485**	**-**	**485**	520
Others	**170**	**-**	**170**	183
	8,194	**-**	**8,194**	6,599
	144,145	**(24,581)**	**119,564**	133,105
OPERATING EXPENSES (note 11)			**17,436**	15,770
COST OF OPERATIONS FOR THE YEAR			**137,000**	148,875
REVENUE				
Interest on loans			**(26)**	(161)
Other interests			**(326)**	(264)
Management fees			**(9)**	(33)
Other contribution (note 9)			**(1,000)**	-
			(1,361)	(458)
NET COST OF OPERATIONS FOR THE YEAR BEFORE GOVERNMENT ASSISTANCE			**135,639**	148,417
GOVERNMENT ASSISTANCE				
Parliamentary appropriation for operations			**77,605**	78,301
Contributions from the Department of Canadian Heritage (note 8)			**58,099**	64,291
Amortization of deferred capital funding (note 6)			**998**	579
			136,702	143,171
NET PROFIT (LOSS) FROM OPERATIONS			**1,063**	(5,246)
EQUITY OF CANADA AT THE BEGINNING			**31,223**	36,469
EQUITY OF CANADA AT THE END			**32,286**	31,223

See accompanying notes to financial statements.

CASH FLOW STATEMENT

Year ended March 31, 2000, with comparative figures for 1999

	2000 in thousands of dollars	1999 in thousands of dollars
OPERATING ACTIVITIES		
Net profit (loss) from operations	**1,063**	(5,246)
Adjustments for		
Increase (decrease) in the allowance for loan impairment	**3,756**	(479)
Write-off of loans not previously provisioned	**–**	39
Amortization of capital assets	**446**	529
Loss on disposal of capital assets	**541**	44
Increase (decrease) in the provision for employee termination benefits	**(333)**	16
Increase (decrease) in deferred lease inducements	**796**	(27)
Amortization of deferred capital funding	**(998)**	(579)
Increase of obligation under operating lease	**996**	–
	6,267	(5,703)
Variations in non-working capital cash items		
Decrease (increase) in accounts receivable	**1,152**	(1,329)
Decrease (increase) in prepaid expenses	**141**	(53)
Decrease in accounts payable and accrued liabilities	**(806)**	(3,584)
	6,754	(10,669)
FINANCING ACTIVITIES		
Parliamentary appropriation for capital funding	**1,295**	163
INVESTING ACTIVITIES		
Loans	**(4,649)**	(5,568)
Repayments of loans	**1,561**	5,971
Investments	**–**	(75)
Acquisition of capital assets	**(1,295)**	(163)
Proceeds from disposal of capital assets	**11**	6
	(4,372)	171
INCREASE (DECREASE) IN LIQUIDITY	**3,677**	(10,335)
RECEIVABLE FROM CANADA AT THE BEGINNING (note 3)	**27,777**	38,112
RECEIVABLE FROM CANADA AT THE END (note 3)	**31,454**	27,777

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2000

1. AUTHORITY AND ACTIVITIES

The Corporation was established in 1967 by the *Canadian Film Development Corporation Act* with the objective of fostering and promoting the development of a feature film industry in Canada. The Corporation has since been charged with the administration of the Canadian Broadcast Program Development Fund (Television Fund) established on July 1, 1983, within the framework of the Broadcasting Strategy for Canada as well as with the management of various new programs established under the National Film and Video Policy of May 1984. The Act was amended in June 1994 to grant the Corporation the authority to guarantee loans.

In September 1996, the Minister of Canadian Heritage created the Canadian Television Fund (CTF). Created to foster a partnership between the government and the industry, this new fund brings together the Corporation's television fund and the cable distributors production fund. Two financial assistance programs constitute the CTF: the Equity Investment Program and the License Fee Program. The Corporation was given responsibility for the management of the Equity Investment Program.

In July 1997, the Corporation was given responsibility for the administration of the funding program in support of pre-professional development and in July 1998, the management of the Multimedia Fund.

The Corporation is a Crown corporation subject inter alia to the provisions of Part VIII of the *Financial Administration Act* as it read before its repeal in 1984 and as if it continued to be named in Schedule C of the Act.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Financing sources of the Corporation

The Corporation obtains its funds mainly from the Government of Canada by means of the parliamentary appropriation and the contributions from the Department of Canadian Heritage. The portion of the parliamentary appropriation used to finance the acquisition of depreciable capital assets is recorded as deferred capital funding on the balance sheet and amortized on the same basis as the related capital assets. The other portion of the parliamentary appropriation and the contributions from the Department of Canada Heritage are recorded on the Statement of Operations and Equity of Canada.

b) Liquidity and amount receivable from Canada

The financial operations of the Corporation are processed through the Consolidated Revenue Fund of Canada, thus the absence of bank accounts. For the purposes of the financial statements, its liquidity consists of a receivable from Canada. The amount receivable from Canada is comprised of the unused cumulative receipts and the disbursements made after year end and related to current year operations.

c) Investments and allowance for losses

Investments include all forms of assistance granted for feature films and Canadian programming, excluding loans. Investments are accounted for as follows:

- Investments granted in return for a share in exploitation revenues and accompanied by pre-established obligations to reimburse on a term generally not exceeding three years are shown on the balance sheet at their face value, less an allowance for losses. The allowance for losses is determined by examining each investment individually and is charged to operations as assistance expenses.
- Investments granted in return for a share in exploitation revenues other than those accompanied by pre-established obligations to reimburse as well as non-recoverable investments are charged to operations as assistance expenses. These expenses are charged to operations in the year in which the funds are paid or have become payable.
- Recoveries on investments, other than those recognized on the balance sheet, are credited to operations as a reduction of assistance expenses in the year in which the funds are received or have become receivable. Any proceeds in excess of the related investment are accounted for as revenues.

d) Loans and allowance for losses

The Corporation grants loans for the financing of Canadian programming, feature films and new media products. Loans are shown on the balance sheet at the principal amount increased by accrued interest receivable, net of an allowance for impairment. The allowance for losses is determined by examining each loan individually and is charged to operations as assistance expenses. The evaluation is based on the receivables taken as security as well as the borrower's financial situation.

A loan is considered to be impaired as a result of a deterioration in credit quality to the extent that the Corporation no longer has reasonable assurance that the full amount of principal and interest will be collected in accordance with the terms of the loan agreement. When a loan is considered impaired, the carrying amount of the loan is reduced to its estimated realizable value by discounting the expected cash flows at the effective interest rate inherent in the loan.

e) Interest revenue

Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired. When a loan becomes impaired, recognition of interest in accordance with the terms of the original loan agreement ceases.

f) Other interest revenue

Other interest revenue is recognized on an accrual basis and represents the amounts charged on all amounts, other than loans, due to the Corporation, less an allowance for losses. This allowance for losses is determined by examining each amount individually.

g) Capital assets

Capital assets are recorded at cost. Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Computer installations	Diminishing-balance	20%
Software	Straight-line	5 years
Furniture and equipment	Diminishing-balance	20%
Leasehold improvements	Straight-line	Terms of the leases

h) Employee termination benefits

On termination of employment, employees are entitled to certain benefits provided for under their conditions of employment. The cost of these benefits is expensed in the year in which they are earned by the employees.

i) Pension plan

Admissible employees participate in the superannuation plan administered by the Government of Canada. The employees and the Corporation contribute equally to the cost of the plan. This contribution represents the total liability of the Corporation. Contributions in respect of current services and admissible past services are expensed during the year in which payments are made. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

j) Measurement uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. The allowance for losses on impaired loans, employee termination benefits and contingencies are the most significant items where estimates are used. Actual results could differ from those estimates.

3. RECEIVABLE FROM CANADA

The receivable from Canada includes the following amounts recognized on the balance sheet:

	2000 In thousands of dollars	1999 In thousands of dollars
Unused cumulative receipts	25,019	19,926
Disbursements made after year end and related to current year operations	6,435	7,851
	31,454	27,777

4. LOANS AND ALLOWANCE FOR LOSSES

Loans with a carrying value of $8,394,852 ($5,020,537 in 1999) granted for production and marketing projects in the Multimedia Fund are interest-free loans. Generally these loans are repayable in twelve consecutive equal monthly installments beginning twelve to twenty-four months after the agreed completion date of the project. For other loans, interest charged does not exceed the prime rate plus 2%. The loans have a term generally not exceeding three years.

As at March 31, the loans are detailed as follows:

	2000			1999
	Amount In thousands of dollars	Allowance for losses In thousands of dollars	Net amount In thousands of dollars	Net amount In thousands of dollars
Loans	**5,747**	**-**	**5,747**	6,251
Impaired loans	**4,161**	**(4,161)**	**-**	164
	9,908	**(4,161)**	**5,747**	6,415
Less current portion	**2,676**	**(1,328)**	**1,348**	1,075
Long-term portion	**7,232**	**(2,833)**	**4,399**	5,340

4. LOANS AND ALLOWANCE FOR LOSSES (CONTINUED)

The allowance for losses is detailed as follows:

	2000 in thousands of dollars	1999 in thousands of dollars
Balance at beginning	**525**	1,004
Write-offs	**(120)**	-
Recoveries	**(272)**	(510)
Allowance	**4,028**	31
Balance at end	**4,161**	525

5. CAPITAL ASSETS

	2000 Cost in thousands of dollars	2000 Accumulated amortization in thousands of dollars	2000 Net in thousands of dollars	1999 Net in thousands of dollars
Leasehold improvements	**1,391**	**518**	**873**	314
Software	**3,558**	**2,885**	**673**	496
Computer installations	**2,019**	**1,511**	**508**	784
Furniture and equipment	**1,045**	**986**	**59**	222
	8,013	**5,900**	**2,113**	1,816

6. DEFERRED CAPITAL FUNDING

The amount presented on the balance sheet is detailed as follows:

	2000 in thousands of dollars	1999 in thousands of dollars
Balance at beginning	**1,816**	2,232
Parliamentary appropriation for capital funding	**1,295**	163
Amortization of deferred capital funding	**(998)**	(579)
Balance at end	**2,113**	1,816

7. OBLIGATION UNDER OPERATING LEASE

In the year ended March 31, 2000, the Corporation ceased using an asset for which a long-term lease was signed. The future net rent payable under this lease has been expensed in the year and set up as liability.

8. CONTRIBUTIONS FROM THE DEPARTMENT OF CANADIAN HERITAGE

The contributions received from the Department of Canadian Heritage are detailed as follows:

	2000 in thousands of dollars	1999 in thousands of dollars
Canadian Television Fund - Equity Investment Program	**49,775**	57,241
Multimedia	**5,750**	5,750
Pre-professional Development	**2,400**	1,300
Other	**174**	-
	58,099	64,291

9. OTHER CONTRIBUTION

The Corporation received a contribution in the amount of $1,000,000 from the Canadian Television Fund – License Fee Program, representing the financing of Canadian television programming in Aboriginal languages.

10. CANADIAN TELEVISION FUND – EQUITY INVESTMENT PROGRAM

The Equity Investment Program is financed by a contribution from the Department of Canadian Heritage and the annual operating budget of the Corporation. The cost of operations for the program excluding operating expenses is detailed as follows:

	2000			1999
	Corporation in thousands of dollars	Department in thousands of dollars	Total in thousands of dollars	Total in thousands of dollars
Investments				
Canadian programming	**47,798**	**39,319**	**87,117**	93,082
Feature films	**-**	**8,646**	**8,646**	16,067
	47,798	**47,965**	**95,763**	109,149
Recoveries on investments	**(8,159)**	**(3,365)**	**(11,524)**	(12,120)
	39,639	**44,600**	**84,239**	97,029

11. OPERATING EXPENSES

	2000 in thousands of dollars	1999 in thousands of dollars
Salaries and employee benefits	**8,490**	8,480
Rent, taxes, heating and electricity	**1,623**	2,141
Professional services	**1,428**	1,440
Office expenses	**1,171**	1,041
Travel	**695**	717
Loss on assets disposal	**541**	44
Amortization	**446**	529
Relocation	**231**	108
Advertising and publications	**206**	279
Telecommunications	**201**	208
Hospitality	**80**	61
Subtotal	**15,112**	15,048
Expenses from the Canadian Television Fund Board	**366**	722
Loss on operating lease (note 7)	**1,958**	-
TOTAL	**17,436**	15,770

12. COMMITMENTS

a) Projects

As at March 31, 2000, the Corporation is contractually committed to advance funds as loans and investments:

	Corporation in thousands of dollars	Department in thousands of dollars	Total in thousands of dollars
Canadian Television Fund			
- Equity Investment Program	**14,098**	**7,980**	22,078
Other programs	**7,158**	**1,829**	8,987
	21,256	**9,809**	31,065

In addition the Corporation has accepted to finance projects that may call for disbursements totaling $319,918. Under the Production Revenue Sharing Program, the Corporation has reserved funds totaling $1,789,048 as at March 31, 2000, for the financing of projects yet to be submitted under certain conditions.

b) Leases

The Corporation has entered into long-term leases for the rental of office space and equipment used in its operations. The aggregate minimum annual rentals payable during subsequent years are as follows:

	Total in thousands of dollars
2001	**2,616**
2002	**2,638**
2003	**2,568**
2004	**1,141**
2005	**672**
2006-2015	**5,379**
	15,014

13. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business, and they are recorded at exchange value.

14. CONTINGENCIES

The Corporation guarantees the reimbursement of loans or debts incurred by third parties with financial institutions within the loan guarantee program. The total amount of the Corporation's guarantees cannot exceed, at any time, $25,000,000. The interest rate cannot exceed the lending institutions' prime rate plus 2%, and eligible security must be obtained from the borrower. The guarantees as at March 31, 2000 totaled $1,452,379 (1999 – $2,660,961). A provision for losses is recorded when management can estimate that a loss is likely to occur.

In the normal course of business, various claims and lawsuits have been brought against the Corporation. In the opinion of management, the losses, if any, which may result from the settlement of the matters are not likely to be material and accordingly no provision has been made in the accounts of the Corporation. In the event that such expenses were to occur, they would be charged to expense when determined.

15. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts reported for investments, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments.

The following table represents the carrying amounts and fair values of the Corporation's other financial instruments:

	2000		1999	
	Carrying amount in thousands of dollars	Fair value in thousands of dollars	Carrying amount in thousands of dollars	Fair value in thousands of dollars
Short-term loans	**1,368**	**1,236**	1,075	952
Long-term loans	**4,399**	**3,690**	5,340	4,524

The fair values of loans have been established by discounting the future contractual cash flows under current loan arrangements, at discount rates equal to the prevailing market rate of interest for financial instruments having substantially the same terms and characteristics.

16. COMPARATIVE FIGURES

Some of the 1999 comparative figures have been reclassified to conform with the presentation adopted for 2000.

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Canadian
Museum
of Civilization
Corporation

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements contained in this annual report have been prepared by Management in accordance with generally accepted accounting principles, and the integrity and objectivity of the data in these financial statements are Management's responsibility.

In support of its responsibility, Management has developed and maintains books of account, records, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of financial information, that assets are safeguarded and controlled, and that transactions are in accordance with the *Financial Administration Act* and regulations as well as the *Museums Act* and the by-laws of the Corporation.

The Board of Trustees is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee, which includes a majority of members who are not officers of the Corporation. The Committee meets with Management and the independent external auditor to review the manner in which these groups are performing their responsibilities, and to discuss auditing, internal controls and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditor and has submitted its report to the Board of Trustees. The Board of Trustees has reviewed and approved the financial statements.

The Corporation's external auditor, the Auditor General of Canada, examines the financial statements and reports to the Minister of Canadian Heritage, who is responsible for the Canadian Museum of Civilization.

J. (Joe) Geurts
Chief Operating Officer and
Senior Vice-President

David Loye
Chief Financial Officer

May 12, 2000

AUDITOR GENERAL OF CANADA **VÉRIFICATEUR GÉNÉRAL DU CANADA**

Auditor's Report

To the Minister of Canadian Heritage

I have audited the balance sheet of the Canadian Museum of Civilization as at March 31, 2000 and the statements of operations and equity of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Museums Act* and the by-laws of the Corporation.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 18, 2000

CANADIAN MUSEUM OF CIVILIZATION

Balance Sheet as at March 31, 2000

ASSETS

(in thousands of dollars)	2000	1999
CURRENT		
Cash and short-term investments (Note 3)	$ 13,489	$ 15,020
Accounts receivable (Note 4)	2,488	1,329
Inventories	1,891	1,072
Prepaid expenses	1,310	1,307
	19,178	18,728
Restricted cash and investments (Note 5)	7,668	2,531
Collection (Note 6)	1	1
Capital assets (Note 7)	12,691	12,818
	$ 39,538	$ 34,078

The accompanying notes form an integral part of the financial statements.

Approved by the Board of Trustees:

Chairperson

Trustee

LIABILITIES

(in thousands of dollars)	2000	1999
CURRENT		
Accounts payable and accrued liabilities (Note 8)	$ 7.417	$ 6.861
Deferred revenues	690	113
	8.107	6.974
Accrued employee termination benefits	2.127	2.079
Deferred contributions (Note 9)	2.668	2.531
Deferred capital funding (Note 10)	12.691	12.818
	25.593	24.402

EQUITY OF CANADA

	2000	1999
Internally restricted (Note 11)	5.000	-
Unrestricted	8.945	9.676
	13.945	9.676
	$ 39.538	$ 34.078

CANADIAN MUSEUM OF CIVILIZATION

Statement of Operations and Equity of Canada
for the year ended March 31, 2000

(in thousands of dollars)	2000	1999
Revenues (Schedule 1)	$ 11,522	$ 11,428
Expenses		
Collect and research	8,676	8,949
Exhibit, educate and communicate	10,775	11,633
Canadian War Museum	5,600	4,946
Accommodate	18,728	18,283
Corporate services	10,946	11,555
Total expenses (Schedule 2)	54,725	55,366
Net result of operations before government funding	(43,203)	(43,938)
Government funding		
Parliamentary appropriation for operating expenses	44,089	43,722
Amortization of deferred capital funding	3,383	3,050
	47,472	46,772
Net income	4,269	2,834
Equity of Canada at beginning of year	9,676	6,842
Equity of Canada at end of year	$ 13,945	$ 9,676

The accompanying notes form an integral part of the financial statements.

CANADIAN MUSEUM OF CIVILIZATION

Statement of Cash Flows

for the year ended March 31, 2000

(in thousands of dollars)	2000	1999
Operating activities		
Net income	$ 4.269	$ 2.834
Adjustment for non-cash items		
Amortization of capital assets	3.383	3.050
Amortization of deferred capital funding	(3.383)	(3.050)
Contributions recognized as revenue	(742)	(814)
	3.527	2.020
Change in non-cash operating assets and liabilities	(848)	551
Change in accrued employee termination benefits	48	110
Cash flows from operating activities	2.727	2.681
Investing activities		
Acquisition of capital assets	(3.256)	(2,156)
Increase in restricted cash and investments	(5.137)	(792)
Cash flows used in investing activities	(8.393)	(2,948)
Financing activities		
Funding for the acquisition of capital assets	3.256	2,156
Restricted contributions and related investment income	879	1,606
Cash flows from financing activities	4.135	3,762
Increase (decrease) in cash and short-term investments	(1.531)	3,495
Balance at beginning of year	15.020	11,525
Balance at end of year	$ 13.489	$ 15,020

The accompanying notes form an integral part of the financial statements.

Canadian Museum of Civilization
March 31, 2000

1. Mission and mandate

The Canadian Museum of Civilization (the "Corporation") was established on July 1, 1990 by the *Museums Act*. The Canadian Museum of Civilization is an agent Crown corporation named in *Part I of Schedule III to the Financial Administration Act*. The Canadian War Museum is a component of the Canadian Museum of Civilization.

The mission, as stated in the *Museums Act*, is as follows:

"to increase, throughout Canada and internationally, interest in, knowledge and critical understanding of and appreciation and respect for human cultural achievements and human behaviour by establishing, maintaining and developing for research and posterity a collection of objects of historical or cultural interest, with special but not exclusive reference to Canada, and by demonstrating those achievements and behaviour, the knowledge derived from them and the understanding they represent."

The Canadian Museum of Civilization's operations are divided into five mutually supportive activities which work together to meet all aspects of its mandate. These activities are:

Collect and research

Manages, develops, conserves, and undertakes research on the collections to enhance program delivery and augment the scientific knowledge base.

Exhibit, educate and communicate

Develops, maintains, and communicates exhibits, programs and activities to further knowledge, critical understanding, appreciation, and respect for human cultural achievements and human behavior.

Accommodate

Managing and maintaining all facilities and related security and hosting services.

Canadian War Museum

An affiliated museum dedicated to Canada's military history and continuing commitment to peacekeeping.

Corporate services

Governance, corporate management, audit and evaluation, fund raising, commercial activities, finance and administration, human resources, and information systems.

2. Significant accounting policies

The financial statements have been prepared in accordance with generally accepted accounting principles. Significant accounting policies follow.

(a) Inventories

Inventories, which consist of materials for the boutiques and publications, are valued at the lower of cost and net realizable value.

(b) Collection

The artifact collection forms the largest part of the assets of the Corporation, and is presented in the balance sheet at a nominal value of $1,000, due to the practical difficulties of determining a meaningful value for these assets.

Objects purchased for the collection of the Corporation are recorded as an expense in the year of acquisition. Objects donated to the Corporation are not recorded in the books of accounts.

(c) Capital assets

Capital assets are valued at cost, net of accumulated amortization.

Amortization is calculated using the straight-line method, over the estimated useful lives of assets:

Leasehold and building improvements	10 years
Office furniture and equipment	8 years
Technical and informatics equipment	5 and 8 years
Motor vehicles	5 years

(d) Pension plan

Employees of the Corporation participate in the Public Service Superannuation Plan, administered by the Government of Canada. The Corporation matches these contributions equally for each employee, for the year in which services are rendered. These contributions are expensed during the year in which services are rendered, and represent the total pension obligations of the Corporation. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(e) Employee termination benefits

Employees of the Corporation are entitled to specified benefits on termination, as provided for under labour contracts and conditions of employment. The cost of these benefits is expensed in the year in which they are earned by the employee.

(f) Contributions

The Corporation follows the deferral method of accounting for contributions.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Contributions externally restricted, and related investment income, are deferred and recognized as revenue in the year in which the related expenses are incurred.

Volunteers contribute a significant number of hours per year. Because of the difficulty of determining their fair value, contributed services are not recognized in these financial statements.

(g) Parliamentary appropriation

The Government of Canada provides funding to the Corporation. The portion of the parliamentary appropriation used to purchase depreciable capital assets is recorded as deferred capital funding and amortized on the same basis and over the same periods as the related capital assets. The remaining portion of the appropriation is recorded in the statement of operations in the year for which it was approved.

3. Cash and short-term investments

The Corporation invests in the short-term money market. The overall portfolio yield as at March 31, 2000 was 4.9% (1999 - 5.1%). All instruments held in short-term investments are rated R1 or better by the Dominion Bond Rating Service. The average term to maturity is 37 days. The fair value of the short-term investments approximates the book value due to their impending maturity.

4. Accounts receivable

(in thousands of dollars)	2000	1999
Refundable taxes	$ 740	$ 513
Trade accounts	634	557
Parliamentary appropriation	1.064	196
Other	50	63
	$ 2.488	$ 1.329

5. Restricted cash and investments

Restricted cash and investments arise from contributions received from individuals and corporate entities for a specified purpose and from internally restricted funds.

The overall portfolio yield on restricted cash as at March 31, 2000 was 4.9% (1999 - 4.8%). All instruments held in short-term investments are rated R1 or better by the Dominion Bond Rating Service. The average term to maturity is 36 days. The fair value of the short-term investments approximates the book value due to their impending maturity.

6. Collection

The Corporation maintains the material culture collections of artifacts, objects, specimens and their related information. These collections are developed by various research divisions, as well as by staff of several sub or specialized museums. The collections are divided into the following eight discipline-related groups :

Ethnology - ethnographic and fine art collections principally related to North American First Peoples in post-European contact

Folk Culture - folk culture and fine craft collections illustrating the diversity of cultural influences on Canadian culture

History - collections which illustrate the experience of the common person as well as famous Canadians

Canadian Postal Museum - collections of philatelic, artwork and material culture which serve to illustrate the role of postal communication in defining and shaping a nation

Canadian Children's Museum - collections which emphasize intercultural understanding and experience, as well as supporting a rich animation programme

Living History - collection of properties, costumes and didactic resources which are used by animators, educators, and other staff to promote and enliven the Museum's programming

Canadian War Museum - collections of weapons and technological artifacts illustrating the development of military technologies, dress and insignia collections of uniforms, medals, accoutrements and regalia of the Canadian Armed Forces and its allies, and war art collections of paintings, drawings, prints and sculptures from the Canadian War Artist programmes and modern art works illustrating Canadian Peacekeeping efforts

Archaeology - archaeological collections of material culture, physical anthropology, flora and fauna recovered from dig sites and principally illustrating indigenous North American culture prior to European contact

7. Capital assets

(in thousands of dollars)			2000	1999
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Leasehold and building improvements	$ 23,209	$ 12,913	$ 10,296	$ 10,320
Office furniture and equipment	5,614	5,576	38	264
Technical equipment	7,898	7,052	846	956
Informatics equipment	7,799	6,349	1,450	1,231
Motor vehicles	164	103	61	47
	$ 44,684	$ 31,993	$ 12,691	$ 12,818

Capital assets do not include the land and buildings occupied by the Corporation since they are owned by the Government of Canada.

8. Accounts payable and accrued liabilities

(in thousands of dollars)	2000	1999
Trade accounts payable	$ 5,206	$ 5,044
Accrued salaries and vacation pay	1,505	1,396
Government departments and agencies	487	258
Current portion of accrued employee termination benefits	219	163
	$ 7,417	$ 6,861

9. Deferred contributions

Deferred contributions represent unspent externally restricted donations and related investment income.

Changes in the deferred contributions balance are as follows:

(in thousands of dollars)	2000	1999
Balance at beginning of year	$ 2,531	$ 1,739
Add donations received in the year	868	1,522
Add deferred investment income (Note 12)	11	84
Less donations recognized as revenue	(742)	(814)
Balance at end of year	$ 2,668	$ 2,531

10. Deferred capital funding

Deferred capital funding represents the unamortized portion of parliamentary appropriations used to purchase depreciable capital assets.

Changes in the deferred capital funding balance are as follows:

(in thousands of dollars)	2000	1999
Balance at beginning of year	$ 12,818	$ 13,712
Add portion of parliamentary appropriation used to purchase depreciable capital assets	3,256	2,156
Less amortization	(3,383)	(3,050)
Balance at end of year	$ 12,691	$ 12,818

11. Internally restricted equity of Canada

The Corporation has committed an amount of $7,000,000 towards the construction of a new Canadian War Museum. As of March 31, 2000 the Corporation has internally restricted $5,000,000 of equity towards this goal.

12. **Interest on cash and investments**

Interest on cash and investments is reported as follows :

(in thousands of dollars)	2000	1999
Income earned on unrestricted resources	$ 858	$ 734
Income earned on restricted resources	144	118
Total interest on cash and investments earned in the period	1,002	852
Less amounts deferred (Note 9)	(11)	(84)
Total interest on cash and investments recognized as revenue	$ 991	$ 768

13. **Related party transactions**

The Corporation receives federal government auditing services without charge. The cost of this service is not reflected in the financial statements.

In addition to those related party transactions, disclosed elsewhere in these financial statements, the Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

14. **Fair value of financial instruments**

In addition to what was already described in Notes 3 and 5, the fair value of accounts receivable, restricted cash and investments, and accounts payable and accrued liabilities approximate the book value due to their impending maturity.

15. **Commitments**

As at March 31, 2000 the Corporation has entered into long-term contracts for informatics, property leases and building maintenance services with a remaining value of $13,267,000. The future minimum payments are as follows:

	(in thousands of dollars)
2000-01	$ 4,586
2001-02	2,713
2002-03	2,774
2003-04	2,059
2004-05	1,135

16. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

SCHEDULE OF REVENUE
FOR THE YEAR ENDED MARCH 31, 2000

(in thousands of dollars) SCHEDULE 1

	2000	1999
General admission	$ 2,029	$ 2,575
Boutique sales	1,990	2,092
CINÉPLUS	1,805	2,145
Facility rental and concessions	1,125	831
Interest on cash and investments (Note 12)	991	768
Donations	799	924
Parking	792	785
Grants and sponsorships	558	115
Travelling exhibits	325	111
Publications	175	156
Royalties	133	76
Other	800	850
	$ 11,522	$ 11,428

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED MARCH 31, 2000

(in thousands of dollars) SCHEDULE 2

	2000	1999
Personnel costs	$ 23,345	$ 23,350
Professional and special services	6,633	6,606
Property taxes	4,972	4,835
Exhibit design and fabrication	4,136	4,346
Amortization	3,383	3,050
Repairs and maintenance	3,254	3,037
Utilities	1,779	2,190
Furniture and fixtures	1,643	1,897
Cost of goods sold	1,419	1,332
Travel, hospitality and transportation	1,100	1,318
Building leases	990	919
Marketing and advertising	943	1,011
Communications	699	872
Rentals	158	173
CINÉPLUS films	87	140
Collection acquisitions	83	150
Other	101	140
	$ 54,725	$ 55,366

Canadian
Museum
of Nature

FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY OF FINANCIAL REPORTING

Management is responsible for establishing and maintaining a system of books, records, internal controls and management practices to provide reasonable assurance that: reliable financial information is produced; the assets of the Corporation are safeguarded and controlled; the transactions of the Corporation are in accordance with the relevant legislation, regulations and by-laws of the Corporation; the resources of the Corporation are managed efficiently and economically; and the operations of the Corporation are carried out effectively.

Management is also responsible for the integrity and objectivity of the financial statements of the Corporation. The accompanying financial statements were prepared in accordance with generally accepted accounting principles. The financial information contained elsewhere in this annual report is consistent with that in the financial statements.

The Board of Trustees is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit and Finance Committee, which includes a majority of members who are not officers of the Corporation. The Committee meets from time to time with management, the Corporation's internal auditors and the Auditor General of Canada to review the manner in which these groups are performing their responsibilities, and to discuss auditing, internal controls, and other relevant financial matters. The Board of Trustees has reviewed the financial statements with the Auditor General of Canada and has approved them.

The financial statements have been audited by the Auditor General of Canada. His report offers an independent opinion on the financial statements to the Minister of Canadian Heritage.

Joanne DiCosimo
President and Chief Executive Officer

Colin C. Eades
Vice-President, Corporate Services and Chief Operating Officer

June 2, 2000

AUDITOR'S REPORT

To the Minister of Canadian Heritage

I have audited the balance sheet of the Canadian Museum of Nature as at March 31, 2000 and the statements of operations and equity of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Museums Act* and the by-laws of the Corporation.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 2, 2000

Balance Sheet as at March 31, 2000

(in thousands of dollars)

	Notes	2000	1999
ASSETS			
Current			
Cash and short-term investments	3	4,770	3,696
Accounts receivable			
Trade		401	257
Government departments and agencies		919	326
Inventory		14	22
Prepaid expenses		975	844
		7,079	5,145
Restricted cash and short-term investments	3, 4	629	637
Collections	5	1	1
Capital assets	6	35,813	37,229
		43,522	**43,012**
LIABILITIES			
Current			
Accounts payable and accrued liabilities			
Trade		2,080	1,423
Government departments and agencies		676	836
Current portion - obligation under capital lease	7	163	147
Current portion - Department of Canadian Heritage	7	347	333
Deferred revenue and parliamentary appropriation		427	602
Provision for termination benefits		131	86
		3,824	3,427
Obligation under capital lease	7	33,520	33,683
Loan - Department of Canadian Heritage	7	738	1,085
Deferred capital funding	8	3,947	4,171
Provision for termination benefits		892	782
Deferred contributions	9	379	387
		43,300	43,535
Endowment	10	250	250
EQUITY OF CANADA		(28)	(773)
		43,522	**43,012**

The notes form an integral part of the financial statements.

Approved by the Board of Trustees:

Frank Ling

Chairman of the Board of Trustees

R. Kenneth Armstrong

Chairman of the Audit and Finance Committee

Recommended by Management:

Colin C. Eades

Vice President, Corporate Services and Chief Operating Officer

Lynne Ladouceur, CA

Senior Full Time Financial Officer

F8

Statement of Operations and Equity of Canada for the year ended March 31, 2000

(in thousands of dollars)

	Notes	2000	1999
REVENUE			
Commercial operations	11	990	907
Contributions		292	180
Educational programmes		154	188
Scientific services		58	72
Interest income		344	259
Other		25	43
		1,863	**1,649**
EXPENSES			
Personnel costs		9,411	8,756
Severance costs		186	99
Interest on capital lease obligation		3,398	3,425
Operation and maintenance of buildings		2,644	2,561
Professional and special services		2,061	1,913
Depreciation of capital assets		1,590	1,633
Information management infrastructure and systems		1,225	1,214
Real property leases and taxes		800	1,611
Marketing and communications		549	490
Material and equipment		549	579
Exhibits		546	175
Travel		331	396
Repairs and maintenance		92	63
Stonework project costs		–	180
Freight and cartage		74	109
Purchase of objects for collections		4	–
Other		18	21
		23,478	**23,225**
Net result of operations before government funding		(21,615)	(21,576)
Parliamentary appropriation for operating expenditures	12	21,772	20,737
Amortization of deferred capital funding	8	588	536
Net result of operations	13	**745**	**(303)**
Equity of Canada, beginning of year		(773)	**(470)**
Equity of Canada, end of year		**(28)**	**(773)**

The notes form an integral part of the financial statements.

Statement of Cash Flows for the year ended March 31, 2000

(in thousands of dollars)

	2000	1999
OPERATING ACTIVITIES		
Net result of operations	745	(303)
Items not involving cash:		
Depreciation of capital assets	1,590	1,633
Employee termination benefits	155	32
Amortization of deferred capital funding	(588)	(536)
(Decrease) increase in deferred contributions	(8)	64
Net change in non-cash working capital	(538)	323
	1,356	1,213
FINANCING ACTIVITIES		
Repayment of loan from the Department of Canadian Heritage	(333)	(319)
Appropriation used to purchase depreciable capital assets	364	168
Obligation under capital lease	(147)	(133)
	(116)	(284)
INVESTING ACTIVITIES		
Acquisition of capital assets	(174)	(454)
Decrease in restricted cash and short-term investments	8	157
	(166)	(297)
Increase in cash and short-term investments	1,074	632
Cash and short-term investments, beginning of year	3,696	3,064
Cash and short-term investments, end of year	**4,770**	**3,696**

The notes form an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

for the year ended March 31, 2000

1. Authority and Mission

The Canadian Museum of Nature was established by the *Museums Act* on July 1st, 1990, and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*.

The Corporation's mission is to increase, throughout Canada and internationally, interest in, knowledge of and appreciation and respect for the natural world by establishing, maintaining and developing for research and posterity a collection of natural history objects, with special but not exclusive reference to Canada, and by demonstrating the natural world, the knowledge derived from it and the understanding it represents.

2. Significant Accounting Policies

These financial statements are prepared in accordance with generally accepted accounting principles and reflect the following policies.

A) Inventory – Inventory of publications is valued at the lower of cost and net realizable value.

B) Capital Assets – Capital assets are recorded at cost. Assets recorded as capital leases are initially recorded at the present value of the minimum lease payments at the inception of the lease. Depreciation is calculated on the straight-line method using rates based on the estimated useful life of the assets as follows:

Property under capital lease	35 years
Collection cabinets and compactors	35 years
Research equipment	10 years
Technical equipment	10 years
Furnishings and office equipment	10 years
Motor vehicles	5 years
Computer equipment and software	3 years

Major leasehold improvements are capitalized and depreciated over the term of the respective leases to a maximum period of five years.

Material and equipment acquired for the purpose of the design, development and maintenance of exhibits are charged to operations in the year of acquisition.

C) Collections – The Canadian Museum of Nature holds and preserves invaluable collections of natural history specimens for the benefit of Canadians, present and future. The collections form the largest part of the assets of the Corporation. The collections are shown as an asset on the balance sheet at a nominal value of $1,000 due to practical difficulties in determining a meaningful value for these assets. Objects purchased for the collections are recorded as an expense in the year of acquisition. Objects donated to the Corporation are not recorded in the books of accounts.

D) Pension Plan – The Corporation's employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are made both by the employees and the Corporation on an equal basis. These contributions represent the total pension obligations of the Corporation and are recognized in the accounts on a current basis.

The Corporation is not required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

E) Employee Termination Benefits – Employees of the Corporation are entitled to specified benefits on termination as provided under labour contracts and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees under the respective terms of employment.

F) Parliamentary Appropriation – The parliamentary appropriation for operating expenditures is recognized as revenue in the fiscal year for which it is approved. The portion of the parliamentary appropriation used to purchase depreciable capital assets is recorded as deferred capital funding and amortized on the same basis and over the same period as the related capital assets. Parliamentary appropriations for specific projects are deferred and recognized on the Statement of Operations in the year in which the related expenses are incurred.

G) Contributions – The Corporation follows the deferral method of accounting for contributions.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Contributions externally restricted are deferred and recognized as revenue in the year in which the related expenses are recognized. Restricted investment income is recognized as revenue in the year in which the related expenses are incurred.

Contributions received in a form other than cash are recorded at their fair value at the date they are received by the Corporation.

Volunteers contribute a significant number of hours per year. Because of the difficulty of determining their fair value, contributed services are not recognized in these financial statements.

3. Cash and Short-term Investments

The Corporation invests operating and restricted funds in the short-term money market. The overall portfolio yield as at March 31, 2000 was 5.11% (1999 – 4.83%). Treasury policies for the Corporation limit investments to instruments held in short-term investments to a maximum of 36 months rated AA or better and guaranteed by the Government of Canada, a provincial government or the Royal Bank of Canada. The average term to maturity is 15 days (1999 – 24 days). The cost of the portfolio approximates its fair value.

4. Restricted Cash and Short-term Investments

Restricted cash and short-term investments include deferred contributions and funds received for the Endowment. Restricted cash accounts are managed in accordance with the donor's wishes and are invested in accordance with investment policies of the Corporation.

5. Collections

The Canadian Museum of Nature holds and preserves invaluable collections of natural history specimens for the benefit of Canadians, present and future. The natural history collections consist of over 10 million specimens and grew by 25,396 items this fiscal year. They are an exceptional scientific resource that is available nationally and internationally for research, exhibits and education.

The collections are divided into four discipline related groups, being:

- **the Earth Sciences collection**
  (minerals, rocks, gems, fossils)
- **the Vertebrates collection**
  (mammals, birds, fish, amphibians, reptiles)
- **the Invertebrates collection**
  (molluscs, insects, crustaceans, parasites, worms)
- **the Botany collection**
  (algæ, vascular plants, mosses, lichens)

In addition, conservation research is conducted to improve the management of the collections.

6. Capital Assets

(in thousands of dollars)

	Cost	Accumulated depreciation	2000 Net book value	1999 Net book value
Land	505	–	505	505
Property under capital lease	35,040	3,966	31,074	32,065
Collection cabinets and compactors	3,522	403	3,119	3,220
Computer equipment and software	2,951	2,827	124	337
Research equipment	1,394	1,279	115	145
Furnishings and office equipment	1,283	719	564	656
Leasehold improvements	1,969	1,759	210	201
Technical equipment	312	232	80	91
Motor vehicles	61	39	22	9
	47,037	**11,224**	**35,813**	**37,229**

The Victoria Memorial Museum Building and grounds are owned by the Government of Canada and consequently are not included in capital assets.

7. Capital Lease and Secondary Financing Obligations

The Natural Heritage Building (NHB) houses the Canadian Museum of Nature natural history collections and administrative functions, on the Corporation's site in Aylmer, Quebec.

The Corporation is acquiring the building through a lease purchase agreement with a term of 35 years. It is committed to pay rent under all circumstances and in the event of termination of the lease, at the Corporation's option or otherwise, pay sufficient rent to repay all financing on the building. Management intends to completely discharge its obligation under the lease and obtain free title to the building in 2031. In 1997-98, the Corporation secured financing for the additional construction and fit-up costs of the NHB with the Department of Canadian Heritage.

Future minimum lease and debt repayments, by year and in aggregate, under the financing obligations are as follows:

(in thousands of dollars)

	Obligation under capital lease	Obligation under loan from Department of Canadian Heritage	Total financing obligations
2001	3,500	377	3,877
2002	3 500	377	3 877
2003	3,500	377	3,877
2004	3,500	–	3,500
2005	3,500	–	3,500
Thereafter	92,750	–	92,750
Total minimum future payments	110,250 (1)	1,131 (2)	111,381
Deduct: Imputed interest	(76,567)	(46)	(76,613)
Present value of financing obligations	**33,683**	**1,085**	**34,768**

NOTES:

(1) The amounts payable under the capital lease are based on the fixed interest rate of 9.88%, for a period of 35 years, established at the time of signing the lease.

(2) The amounts payable under the loan from the Department of Canadian Heritage are based on the fixed interest rate of 4.27%, for a period of 3 years.

8. Deferred Capital Funding

Deferred capital funding represents the unamortized portion of parliamentary appropriation used to purchase depreciable capital assets. Changes in the deferred capital funding are as follows:

(in thousands of dollars)

	2000	1999
Beginning balance	4,171	4,539
Add appropriation used to purchase depreciable capital assets	364	168
Less amortization of deferred capital funding	(588)	(536)
Ending balance	**3,947**	**4,171**

9. Deferred Contributions

Deferred contributions represent unrecognized externally restricted donations and investment income. The changes in the deferred contribution balance and the components of this balance are as follows:

(in thousands of dollars)

	2000	**1999**
Beginning balance	387	323
Add contributions received during the year	232	241
Less amounts recognized in the year	(240)	(177)
Ending balance	379	387
Deferred contributions are comprised of:		
Funds restricted for research purposes	65	72
Funds restricted for programming purposes	283	273
Restricted endowment fund interest	31	42
Total deferred contributions	**379**	**387**

10. Endowment

The Corporation maintains an endowment in the principal amount of $250,000 received from Anne and Henry Howden, which included a significant entomological collection. The endowment was established to enable professional studies and research of entomological collections for the Museum.

The principal of the Systematic Entomology Endowment Fund can not be expended. Accumulated interest earned from the endowment must be expended for specified purposes and the residual balance totalled $31,070 at March 31, 2000 ($42,400 at March 31, 1999) which is included in deferred contributions (Note 9). In the event that the Corporation decides not to maintain entomological collections, the Systematic Entomology Endowment Fund shall be transferred, along with any entomological collections, to the Royal Ontario Museum.

11. Commercial Operations

Commercial operations revenue is comprised as follows:

(in thousands of dollars)

	2000	**1999**
Boutique lease	52	46
Publishing revenues	37	49
Publishing royalties	33	35
Admission fees	449	420
Parking	171	144
Rental of facilities	248	213
Total commercial operations revenue	**990**	**907**

12. Parliamentary Appropriation

(in thousands of dollars)

	2000	1999
Appropriation approved	21,658	20,848
Applied as follows:		
Operating expenses	21,772	20,557
Stonework project	–	180
Parliamentary appropriation for operating expenditures recognized on the Statement of Operations	21,772	20,737
Add appropriation used to purchase capital assets	364	168
Less payment to the Department of Canadian Heritage	(377)	(377)
(Decrease) increase in deferred parliamentary appropriation	(101)	320
Total applied	**21,658**	**20,848**

13. Net Result of Operations on a Cash Basis

(in thousands of dollars)

	2000	1999
Net result of operations:	745	(303)
Items not involving cash:		
Depreciation of capital assets	1,590	1,633
Employee termination benefits	155	32
Amortization of deferred capital funding	(588)	(536)
Net result of operations after adding items not involving cash	**1,902**	**826**

14. Related Party Transactions

In addition to those related party transactions disclosed elsewhere in these financial statements, the Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

15. Contractual Commitments

The Corporation has entered into agreements for the provision of services and equipment. The payments under these agreements are approximately as follows:

(in thousands of dollars)

	2001	2002 and subsequent years
Facilities maintenance costs	1,708	–
Systems and infrastructure agreements	661	478
Other commitments	1,027	93
	3,396	**571**

16. Pay Equity

In 1994, a pay equity complaint was filed by the Public Service Alliance of Canada (PSAC) against the Corporation alleging discrimination in wages based on gender inequity. The PSAC and the Corporation have agreed to develop and implement a Job Classification and Evaluation Plan. This Plan will be used to determine relativity between jobs and will ensure that there is no gender based wage discrimination within jobs at the Corporation. The Corporation cannot determine and assess the outcome of this complaint on its operations. The effect, if any, of the ultimate resolution of this matter will be accounted for in the year when known.

17. Contingency

During the previous year, a sub-contractor of the Corporation received a claim for additional costs regarding the Stonework project at the Victoria Memorial Museum Building. The sub-contractor is now reviewing the claim for its legitimacy. The Corporation cannot determine and assess the outcome of this claim on its operations. The effect, if any, of the ultimate resolution of this matter will be accounted for in the year when known.

18. Comparative Figures

The 1999 comparative figures have been reclassified to conform to the 2000 financial statement presentation.

Canadian
Race
Relations
Foundation

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of the Canadian Race Relations Foundation are the responsibility of management and have been approved by the board of directors. These financial statements have been audited by Hilborn Ellis Grant LLP, Chartered Accountants.

In support of its responsibility, management has developed and maintained books of accounts, records, financial and management controls and information systems. These are designed to provide reasonable assurance that the Foundation's resources are managed prudently, that its assets are safeguarded and controlled, and that its financial information is reliable. The Foundation carries out its responsibilities for the financial statements mainly through the Finance Committee. The Finance Committee meets with management and the external auditor to review internal controls, auditing and other relevant financial matters. In addition, the Finance Committee is responsible for monitoring the performance of the investment managers.

In the past year, there has been continued growth in the area of program and research development. During this fiscal year the Foundation has funded 22 Initiatives Against Racism (IAR) projects and awarded five research contracts. One of the major expenditures this past year has been associated with the National Anti-Racism campaign to raise public awareness about the importance of eliminating racism.

Also of note this year, the Foundation was able to successfully secure new office premises at 4576 Yonge Street. Preparations for the office move were completed in March.

The Canadian Race Relations Foundation has again ended the year with a surplus attributable to positive investment returns and prudent financial management. During this fiscal year, the investment accounts earned a total of 11.89%, performing 1.41% above the established benchmark return. Since inception (approx. three years) the total monetary return on investments as at March 31, 2000 is $7,630,000. In the "Statement of Operations," under the "Revenues" section, a loss on sale of investments is reported. It represents selling transactions due to a change in money managers.

Also, within the financial statements, under the "Statement of Financial Position," "Liabilities" section, it is important to clarify that the line item "Bank indebtedness" does not reflect outstanding loans or debts by the Foundation, but rather a timing related issue of cheques not yet having cleared the bank.

In its effort to provide stability for the future, the Foundation will continue to allocate the surplus to the Reserve Fund which is necessary to fund operational expenditures in case of low investment returns.

Chair

Nicole Beaudoin
Secretary-Treasurer

June 21, 2000

CANADIAN RACE RELATIONS FOUNDATION
CRRF FCRR
FONDATION CANADIENNE DES RELATIONS RACIALES

Auditors' Report

To the Directors of the
Canadian Race Relations Foundation

We have audited the statement of financial position of the **Canadian Race Relations Foundation** as at March 31, 2000 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Toronto, Ontario
May 19, 2000

Hilborn Ellis Grant LLP
Chartered Accountants

Statement of Financial Position

March 31, 2000	2000 $	1999 $
ASSETS		
Current Assets		
Cash	**141,298**	194,577
Investments *(note 3)*	**2,821,052**	2,470,375
Income receivable	**167,216**	229,966
Government grant receivable	**83,333**	-
Prepaid expenses and sundry receivables	**53,514**	25,743
	3,266,413	2,920,661
Investments *(note 3)*	**24,000,000**	24,000,000
Capital assets *(note 4)*	**99,799**	96,147
	27,366,212	27,016,808
LIABILITIES		
Current Liabilities		
Bank indebtedness	**389,073**	44,658
Accounts payable and accrued liabilities	**130,154**	60,477
	519,227	105,135
Deferred contributions - government grants *(note 5)*	**-**	283,431
NET ASSETS		
Net assets invested in capital assets	**99,799**	96,147
Net assets restricted for endowment *(note 6)*	**24,000,000**	24,000,000
Net assets internally restricted for capital preservation *(note 7)*	**109,467**	1,262,425
Net assets internally restricted for reserve *(note 8)*	**2,637,719**	1,269,670
	26,846,985	26,628,242
	27,366,212	27,016,808

Approved on behalf of the Board:

Chair Lincoln Alexander

Secretary-Treasurer Nicole Beaudoin

Statement of Operations

Year ended March 31, 2000	2000 $	1999 $
Revenues		
Government grant *(note 5)*	**533,431**	1,033,251
Interest and dividends *(note 3)*	**1,612,098**	1,107,548
Gain (loss) on sale of investments	**(135,295)**	127,425
Corporate sponsorship	**81,240**	-
	2,091,474	2,268,224
Expenses		
Amortization	**48,608**	45,916
Awards program *(note 9)*	**-**	51,038
Communication	**155,035**	46,482
Conferences, symposia and consultations	**57,149**	136,846
Directors' honoraria and travel	**121,810**	92,277
Information systems and development	**7,519**	16,106
Library	**7,343**	6,891
Office and general	**40,992**	40,839
Professional fees	**18,971**	24,583
Public education *(note 10)*	**624,651**	204,542
Rent	**55,322**	61,639
Research	**172,093**	260,041
Salaries and benefits	**543,520**	534,742
Staff recruitment and development	**19,718**	10,917
	1,872,731	1,532,859
Excess of revenues over expenses for year	**218,743**	735,365

Statement of Changes in Net Assets

Year ended March 31, 2000	Invested in Capital Assets $	Restricted for Endowment $
		(note 6)
Balance, beginning of year	96,147	24,000,000
Excess (deficiency) of revenues over expenses for year	(48,608)	-
Net investment in capital assets	52,260	-
Internally imposed restrictions	-	-
Balance, end of year	99,799	24,000,000

Restricted for Capital Preservation $	Restricted for Reserve $	Unrestricted for Operations $	2000 Total $	1999 Total $
(note 7)	*(note 8)*			
1,262,425	1,269,670	-	**26,628,242**	25,892,877
-	-	267,351	**218,743**	735,365
-	-	(52,260)	**-**	-
(1,152,958)	1,368,049	(215,091)	**-**	-
109,467	2,637,719	-	**26,846,985**	26,628,242

Statement of Cash Flows

Year ended March 31, 2000	2000 $	1999 $
Cash flows from operating activities		
Excess of revenues over expenses for year	**218,743**	735.365
Items not requiring a current cash payment (receipt)		
Amortization	**48,608**	45.916
Loss (gain) on sale of investments	**135,295**	(127.425)
Deferred contributions - government grant	**(283,431)**	(283.251)
	119,215	370.605
Changes in non-cash working capital		
Decrease in income receivable	**62,750**	46.623
Increase in government grant receivable	**(83,333)**	-
Increase in prepaid expenses and other receivables	**(27,771)**	(13.795)
Increase in accounts payable and accrued liabilities	**69,677**	38.165
	140,538	441.598
Cash flows from investment activities		
Proceeds from sale of investments	**37,748,147**	27.508.608
Purchase of investments	**(38,234,119)**	(27.936.851)
Net additions to capital assets	**(52,260)**	(9.220)
	(538,232)	(437.463)
Cash flows from financing activities		
Increase in bank indebtedness	**344,415**	44.417
Net increase (decrease) in cash during year	**(53,279)**	48,552
Cash, beginning of year	**194,577**	146.025
Cash, end of year	**141,298**	194.577

	2000 $	1999 $
Supplementary Disclosure of Cash Flow Information		
Interest paid	-	-
Income taxes paid	-	-

Notes to Financial Statements

March 31, 2000

1. Description of Organization

The Canadian Race Relations Foundation ("the Foundation") was established by way of federal government legislation (Bill C-63 - "The Canadian Race Relations Foundation Act").

The purpose of the Foundation is to facilitate, throughout Canada, the development, sharing and application of knowledge and expertise in order to contribute to the elimination of racism and all forms of racial discrimination in Canadian society.

The Foundation is a registered charity under the Income Tax Act and, as such, is not subject to income tax.

2. Significant Accounting Policies

a) Financial statement presentation

These financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations published by the Canadian Institute of Chartered Accountants using the deferral method of reporting for contributions.

b) Revenue recognition

Restricted contributions are deferred and recognized as revenue in the year in which the related expenses are incurred. Other contributions are recognized as revenue when received.

Endowment contributions are recognized as direct increases in net assets in the period received.

c) Investments

Investments are recorded at the lower of average cost and market value.

d) Investment transactions and income recognition

Investment transactions are accounted for on the trade date. Income from investments is recognized on the accrual basis. Interest is accrued based on the number of days the investment is held during the year. Dividends are accrued as of the ex-dividend date. Realized gains and losses from investment transactions and the unrealized appreciation or depreciation in the value of investments are computed on an average cost basis.

Notes to Financial Statements (continued)

March 31, 2000

2. Significant Accounting Policies (continued)

e) Capital assets

Capital assets are recorded at acquisition cost. Amortization is provided for based on the estimated useful life of the assets on a straight-line basis as follows:

Office furniture and equipment	- 5 years
Computer hardware	- 3 years
Computer software	- 3 years
Leasehold improvements	- over term of sub-lease

f) Foreign currency translation

Transactions in a foreign currency have been translated to Canadian dollars at the rate of exchange prevailing at the month end closest to the transaction. The market value of investments quoted in foreign currencies and accounts denominated in foreign currencies have been translated to Canadian dollars at the rates of exchange prevailing at the year end. Gains and losses are taken into the current year's income.

g) Financial instruments

The organization's financial instruments consist of cash, investments, income receivable, government grant receivable, sundry receivables, bank indebtedness and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

h) Measurement uncertainty

Financial statements are based on representations that often require estimates to be made in anticipation of future transactions and events and include measurements that may, by their nature, be approximations.

Notes to Financial Statements (continued)

March 31. 2000

3. Investments

	Average Cost $	Market Value $
Total investment portfolio	26.821.052	30.282.185
Less: net assets restricted for endowment (note 6)	24.000.000	24.000.000
Less: unrealized appreciation in the value of investments internally restricted for capital preservation (note 7)	-	3.461.133
Classified as a current asset	2.821.052	2.821.052

The portion of the investment portfolio related to net assets restricted for endowment is presented as a non-current asset as the underlying contribution is to be maintained permanently by the Foundation and is not available to fund the expenses of the Foundation.

Investment counsel fees paid by the Foundation are offset against interest and dividend income. During the year, these fees amounted to $212.577 (1999 - $261,871).

4. Capital Assets

	Cost $	Accumulated Amortization $	2000 Net Book Value $	1999 Net Book Value $
Office furniture and equipment	88,443	39,465	48,978	47,699
Computer hardware	92,200	62,659	29,541	33,931
Computer software	17,482	14,459	3,023	8,850
Leasehold improvements	18,257	-	18,257	5,667
	216,382	116,583	99,799	96,147

5. Deferred Contributions - Government Grants

During the year. the Foundation received $250.000 (1999 - $750.000) in government grants from the Department of Canadian Heritage through the Secretary of State for Multiculturalism to fund its start-up expenses net of capital asset amortization and to fund the acquisition of capital assets. These monies were received pursuant to a memorandum of agreement dated February 25. 1997. and amended May 29. 1998.

	2000 $	1999 $
Balance. beginning of year	283.431	566.682
Add:		
Government grants received or receivable during year	250.000	750.000
	533.431	1.316.682
Less:		
Start-up expenses incurred. excluding amortization	481.171	1.021.413
Purchase of capital assets	52.260	11.838
	533.431	1.033.251
Balance. end of year	-	283.431

6. Net Assets Restricted for Endowment

On formation. the Foundation received an initial endowment contribution of $24 million. The endowment contribution was comprised of $12 million. which was part of the Redress Agreement with the National Association of Japanese Canadians. and a matching contribution of $12 million from the federal government. This contribution was made in commemoration of members of the Japanese Canadian community who suffered injustices during and after World War II.

The Canadian Race Relations Foundation Act stipulates that this endowment contribution is to be used only for investment and is not available to fund the Foundation's activities. Investment income earned on these funds may be expended for the purpose of the Foundation and is reported as revenue of operations.

March 31, 2000

7. Net Assets Internally Restricted for Capital Preservation

The Foundation has established a capital preservation policy to facilitate the preservation of the net assets restricted for endowment at an annual rate of inflation. At March 31, 2000, the net assets restricted for endowment adjusted for inflation is $27,570,600 (1999 - $27,030,000) and the inflation component is $3,570,600 (1999 - $3,030,000). This internal restriction is subject to variances based upon the unrealized appreciation in the value of investments at any point in time.

The balance is as follows:

		2000 $	1999 $
Operational surplus transfer	- from prior years	1,262,425	1,046,040
	- current year	(1,152,958)	216,385
		109,467	1,262,425
Unrealized appreciation in the value of investments (note 3)		3,461,133	1,767,575
		3,570,600	3,030,000

8. Net Assets Internally Restricted for Reserve

The Foundation has established a reserve policy to provide stability to the operations of the Foundation from year to year in the event of a shortfall in investment income.

Operational surplus in excess of any transfer to the net assets internally restricted for capital preservation is transferred to the net assets internally restricted for reserve at the end of each fiscal year.

9. Awards Program

The Foundation recognizes positive initiatives in the elimination of racism and the promotion of harmonious race relations through an awards program held every two years. The awards program is next scheduled for March 2001.

Notes to Financial Statements (continued)

March 31, 2000

10. Public Education

Public education during the year included grants awarded in connection with Initiatives Against Racism and the production of a National Anti-Racism Campaign.

The Foundation received donated television and radio airtime valued at approximately $340,000 during the year. The airtime was utilized in connection with the National Anti-Racism Campaign.

11. Commitments

a) The Foundation is party to a sub-lease agreement for its office premises. The sub-lease agreement provides for approximate annual rental payments of $97,000 during the period May 1, 2000 to March 30, 2003.

b) As at March 31, 2000 the Foundation is committed to fund approximately $220,000 in research and public education grants during the fiscal year ending March 31, 2001.

Cape
Breton
Development
Corporation

AUDITOR'S REPORT

YEAR ENDED MARCH 31, 2000

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Natural Resources

I have audited the balance sheet of Cape Breton Development Corporation as at March 31, 2000 and the statements of operations, deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Cape Breton Development Corporation Act* and the by-laws of the Corporation.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 2, 2000

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2000 (in thousands of dollars)

	2000	1999
Revenue	$ 76,142	$ 98,921
Expenses		
Cost of product sold	97,827	94,938
External freight	511	2,232
General and administrative	7,751	6,638
Amortization	25,677	24,582
	131,766	128,390
Loss from current operations	(55,624)	(29,469)
Deduct		
Early retirement and restructuring (Note 8)	70,836	148,336
Workers' Compensation and employee future benefits (Notes 6, 7 and 9)	22,345	17,594
Provision for environmental costs (Note 10)	-	89,041
Write-down of capital assets (Note 5)	-	55,740
	93,181	310,711
Loss before taxes and government funding	(148,805)	(340,180)
Corporate taxes expense (Note 11)	1,148	203
Loss for the year before government funding	(149,953)	(340,383)
Government funding:		
Parliamentary appropriation to fund cash requirements (Note 12)	78,000	40,662
Loss for the year	$ (71,953)	$ (299,721)

See accompanying notes.

STATEMENT OF DEFICIT

YEAR ENDED MARCH 31, 2000 (in thousands of dollars)

	2000	1999
Deficit, beginning of year:	$ 411,970	$ 86,746
Adjustment to deficit, beginning of year		
Change in accounting policy (Note 3 j)	-	28,861
Deficit, beginning of year restated:	411,970	115,607
Parliamentary appropriation for reorganization	-	(3,358)
Loss for the year	71,953	299,721
Deficit, end of year:	$ 483,923	$ 411,970

See accompanying notes.

BALANCE SHEET

AS AT MARCH 31, 2000 (in thousands of dollars)

	2000	1999
Assets		
Current assets		
Cash	$ 3,397	$ 11,820
Accounts receivable, net (Note 4)	4,122	14,310
Parliamentary appropriation receivable (Note 12)	22,000	-
Inventories		
Coal	7,290	16,533
Operating materials and supplies	3,489	6,562
	40,298	49,225
Capital assets (Note 5)	29,273	48,745
Deferred pension costs (Note 6)	20,637	22,949
	$ 90,208	$ 120,919
Liabilities		
Current liabilities		
Accounts payable and accruals	$ 18,923	$ 24,067
Working capital advances	-	12,338
Corporate taxes payable (Note 11)	5,587	4,439
Current portion of long term provisions (Notes 7, 8, 9 and 10)	54,515	23,847
	79,025	64,691
Provision for early retirement and restructuring (Note 8)	235,658	217,716
Provision for Workers' Compensation (Note 9)	141,900	132,392
Provision for environmental costs (Note 10)	108,936	109,215
Provision for other employee future benefits (Note 7)	8,612	8,875
	574,131	532,889
Deficit		
Deficit of Canada	(483,923)	(411,970)
	$ 90,208	$ 120,919

Future of the Corporation (Note 2)
Commitments and contingencies (Note 13)
See accompanying notes.

Approved on behalf of the Board

J Shannon ....Director

J. M. Mac Mullen ....Director

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2000 (in thousands of dollars)

	2000	1999
Cash flows from:		
Operating activities:		
Cash receipts from customers	$ 86,330	$ 108,871
Government funding received	56,000	40,662
Cash paid to suppliers and exployees	(95,086)	(114,027)
Cash paid for early retirements, restructuring and pensions	(37,124)	(37,100)
	10,120	(1,594)
Financing activities:		
(Repayment) receipt of working capital advances	(12,338)	12,338
Receipt of government funding for reorganization	-	3,358
	(12,338)	15,696
Investing activities:		
Purchase of capital assets	(6,205)	(7,934)
Proceeds from sale of capital assets	-	1,647
	(6,205)	(6,287)
(Decrease) increase in cash	(8,423)	7,815
Cash, beginning of year	11,820	4,005
Cash, end of year	$ 3,397	$ 11,820

See accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2000 (in thousands of dollars)

1. AUTHORITY AND OBJECTIVES

The Corporation was established in 1967 for the purpose of reorganizing and rehabilitating the coal industry on Cape Breton Island, pursuant to the *Cape Breton Development Corporation Act.*

The Corporation, an agent of Her Majesty, is listed as a Schedule III, Part I, corporation for purposes of the *Financial Administration Act*. The Corporation is carrying out restructuring activities as approved in the 1996/97 to 2000/01 Corporate Plan and in the 1999/00 to 2003/04 Corporate Plan approved by the Governor in Council. The Government of Canada is providing funding support for these activities by means of annual appropriations. As a result, the Corporation is economically dependent on the Government of Canada.

Repayable advances from the Government of Canada are also provided for working capital purposes to a limit of $50,000, as provided for in the *Cape Breton Development Corporation Act.*

The Corporation is subject to provisions of the *Income Tax Act.*

2. FUTURE OF THE CORPORATION

On January 28, 1999, the Government of Canada announced a decision with respect to the future of the Corporation.

As a result of safety, geological and financial risks, operating activity at the Phalen Colliery was to be curtailed to that required to produce the coal from the 8 East wall which came into production in August 1998 and was expected to be completed in the year 2000. When production on 8 East ceased, the mine was to be closed. However, a major roof fall occurred in September 1999 which resulted in the closure of the Phalen Colliery in December 1999, prior to the planned completion of the wall.

The Government also announced that it would initiate a process to sell all of the Corporation's operations. During 1999, the Corporation initiated this process by engaging a financial advisor to assist in the sale process. Requests for proposals were sought from qualified bidders and, as a result of this process, a short list of potential buyers was developed and approved by the Board of Directors. Negotiations are currently underway with one of the potential buyers. Approval of a final sales agreement will require the approval of the Board of Directors and the Government of Canada.

The Government of Canada introduced Bill C-11, *Cape Breton Development Corporation Divestiture Authorization and Dissolution Act*, which provides for the sale of assets, winding up of the affairs of the Corporation and its eventual dissolution on a date to be fixed by the Governor in Council. Bill C-11 is currently proceeding through Parliament.

Accounting recognition of the effects of the sale process will occur in the year in which the sale is completed. The results of the sale process could impact the reported values of certain assets and liabilities.

In order to mitigate the impact of the January 28, 1999 announcement on the employees of the Corporation, the Government of Canada committed to provide funding to implement an additional early retirement incentive program, a severance program and a retraining program which had an estimated present value of approximately $111,000. There was further consideration of the adjustment package under a Joint Planning Committee and arbitration, which awarded further measures to be included in the adjustment package, having an estimated present value of

$53,861. These additional amounts have been recognized as expenses and liabilities of the Corporation in the current year.

3. ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with generally accepted accounting principles. The significant accounting policies described below are appropriate under the current circumstances.

a) Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, expenses and the disclosure of contingent liabilities at the date of the financial statements. Despite the use of the Corporation's best estimates, it is reasonably possible that the amounts related to the provision for Workers' Compensation, capital assets, deferred pension costs, the provision for early retirement and restructuring, and the provision for environmental costs could change materially in the near term.

b) Parliamentary Appropriations

Parliamentary appropriations provided for operating expenditures are recorded on the statement of operations in the year approved.

c) Fair Values

The fair values of financial instruments are determined as follows:

- Current portion of provisions - usingcash flows of estimated future payments without discounting.
- Provision for early retirement and restructuring - using discounted cash flows of estimated future payments for early retirements, based on current interest rates. The component for standby maintenance is based on estimated future net cash flows, without discounting.
- Provision for other employee future benefits - using discounted cash flows of estimated future payments, based on current interest rates.
- Provision for environmental costs - using estimated future payments, with discounting where applicable.
- Workers' Compensation benefits - using an actuarial valuation.

d) Inventories

Coal is valued at the lower of full cost and estimated net realizable value, based on net expected future contract price.

Operating materials and supplies are valued at the lower of cost, determined on a weighted-average basis, and net realizable value.

e) Capital Assets

Capital assets are valued at the lower of cost less accumulated amortization and the estimated net recoverable amount. The Corporation has provided amortization on its capital assets based on their estimated remaining useful lives, using the straight-line method of calculation, as follows:

Prince Colliery	2-10 years
Phalen Colliery	1 year
Devco Railway	4-15 years
Other assets	4-20 years

f) Employee Future Benefits

The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets as the benefits accrue to employees. The Corporation has adopted the following policies:

- The cost of pensions is actuarially determined using the projected benefits method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, and retirement ages of employees. Current service pension costs are included in the cost of product sold. These costs include adjustments arising from experience gains and losses amortized over the estimated average remaining service life of employees.

- The cost of other employee future benefits is estimated based on management's best estimate of inflation rates for health and related benefits, usage rates and mortality rates. The cost of these other employee future benefits is included in Workers' Compensation and employee future benefits. Management recognizes changes in the net present value of these liabilities from the original estimate, based on the results of actual experience.

g) Provision for Environmental Costs

The Corporation records anticipated future environmental costs based on management's best estimate of the cost of complying with its interpretation of the requirements of appropriate environmental laws and regulations. These costs exclude any future salvage value that may be realized in carrying out these environmental actions. Amounts are discounted where future ongoing payments are anticipated.

h) Provision for Early Retirement and Restructuring

The Corporation recognizes the net present value of liabilities for early retirement incentives, severance, education, and relocation allowances related to workforce reductions when the decision has been approved by the Government of Canada and an estimate of the anticipated future costs can be reasonably determined. In addition, the Corporation recognizes estimated future costs associated with standby maintenance of non-operating assets when no future economic benefit is expected.

Management recognizes changes in the net present value of this liability from the original estimate, based on the results of actual experience and changes in management assumptions.

i) Provision for Workers' Compensation

The Corporation recognizes the actuarially determined net present value of liabilities for benefits for work-related injuries of current and former employees when awards are approved by the Workers' Compensation Board of Nova Scotia, or legislative amendments are made and the anticipated future costs can be reasonably calculated. No amount is recognized for future administrative costs.

Management recognizes changes in the net present value of this liability, based on updated actuarial estimates of future costs as a result of actual experience and changes in actuarial assumptions. Adjustments arising from actuarial gains and losses are recognized in the year in which they occur.

j) Change in Accounting Policy

In 1998/99, the Corporation adopted the new accounting recommendations of the Canadian Institute of Chartered Accountants with respect to employee future benefits. This change in accounting policy affected the recognition of pension expense and the carrying value of deferred pension costs and the recognition of the expense and liability for the Corporation's Compassionate Disability Pension and the cost of life insurance benefits provided to retirees over the age of 65. This change in accounting policy was recorded on a retroactive basis with a charge to the opening deficit of $28,861 and no restatement of prior financial statements.

4. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net are comprised of the following:

	2000	1999
Nova Scotia Power Inc. (NSPI), net	$ 3,654	$ 13,956
Miscellaneous receivables, net	468	354
	$ 4,122	$ 14,310

The Corporation sells substantially all of its coal production to NSPI using normal commercial terms under the provision of a long term agreement (see also Note 14).

5. CAPITAL ASSETS

	2000			1999		
	Adjusted Cost Base	Accumulated Amortization and Write-Downs	Net Book Value	Adjusted Cost Base	Accumulated Amortization and Write-Downs	Net Book Value
Prince Colliery	$ 171,099	$ 153,850	$ 17,249	$ 164,965	$ 145,922	$ 19,043
Phalen Colliery	286,791	286,791	-	286,744	273,544	13,200
Donkin-Morien Development Project	80,679	80,679	-	80,679	80,679	-
Coal Preparation Plant	111,933	111,933	-	111,933	111,933	-
Devco Railway	95,252	84,028	11,224	95,218	82,525	12,693
Other assets	66,955	66,155	800	66,967	63,158	3,809
	$ 812,709	$ 783,436	$ 29,273	$ 806,506	$ 757,761	$ 48,745

In 1998/99, capital assets were written down by $55,740 to reflect the future direction of the Corporation.

6. PENSIONS

The Corporation maintains defined benefit pension plans on behalf of employees of the Corporation. There are two major plans, consisting of a contributory and non-contributory plan. Benefits generally are based on employees' length of service and rate of pay. The present value of pension plan benefits and current pension expense are independently determined by the Corporation's actuary based on assumptions provided by management. The determination of pension expense and the valuation of deferred pension costs could be significantly different if the key assumptions provided by management vary from those planned.

The significant actuarial assumptions adopted in measuring the Corporation's pension obligations are a discount rate of 6% (1999 - 6.25%) and an expected rate of return on plan assets of 6% (1999 - 6.25%). The total pension expense for the year for both plans is $2,312 (1999 - $6,288). The current service portion of $4,195 (1999 - $3,780) is included in the cost of product sold. The valuation allowance is $3,674 (1999 - $4,398).

The Corporation's pension costs and obligations for the non-contributory pension plan as at March 31 consist of:

	2000	1999
Pension fund assets (market value)	$ 299,329	$ 282,140
Pension obligations (actuarial value)	267,782	277,729
Surplus	$ 31,547	$ 4,411
Deferred pension costs, net of valuation allowance	$ 8,905	$ 13,602
Pension contributions - employer	$ -	$ -
Pension expense	$ 4,697	$ 1,258
Benefits paid	$ 23,598	$ 20,211

The Corporation's pension costs and obligations for the contributory plan as at March 31 consist of:

	2000	1999
Pension fund assets (market value)	$ 75,297	$ 66,436
Pension obligations (actuarial value)	57,142	53,350
Surplus	$ 18,155	$ 13,086
Deferred pension costs, net of valuation allowance	$ 11,732	$ 9,347
Pension contributions - employer	$ -	$ -
Pension contributions - employee	$ 950	$ 923
Pension expense (income)	$ (2,385)	$ 5,030
Benefits paid	$ 2,766	$ 2,091

7. OTHER EMPLOYEE FUTURE BENEFITS

The Corporation provides health care, life insurance and related benefits to recipients of the Corporation's Compassionate Disability Pension to age 65 and a life insurance benefit to retirees over the age of 65. The present value of these unfunded benefit plans is determined on the basis of management assumptions.

The significant management assumptions adopted in the calculation of the liability include interest rates for discount factors of 6%, health and other benefit price indexation of 8%, and mortality rates. The liability could be materially different if assumptions on which the estimate is based vary significantly in future years. The statement of operations includes a charge of $782 (1999 - $735) in Workers' Compensation and employee future benefits for the cost of these benefits in the year and changes in management's estimates. Management's estimate for the liabilities associated with other employee future benefits at March 31, including current and non-current amounts is:

	2000	1999
Other employee future benefits	**$ 8,933**	$ 8,875
Less: current portion	**321**	-
Non-current portion	**$ 8,612**	$ 8,875

8. PROVISION FOR EARLY RETIREMENT AND RESTRUCTURING

This provision consists of estimates of the cost of early retirement and restructuring initiatives when approval of such decisions is obtained. Changes to these estimates based on actual experience are recognized in the statement of operations. As part of the 1999/00 to 2003/04 Corporate Plan, various restructuring initiatives are in place to reduce the workforce by a total of 1,155 employees by December 31, 2000, including earlier restructuring initiatives approved in the 1996/97 to 2000/01 Corporate Plan.

Management made significant assumptions in preparing estimates of this provision, including: interest rates for discount factors and price indexation for the non-current portion of the liability; planned date of employee reductions; Canada Pension disability award rates; health and other benefit price indexation; and the number of reductions. The estimate of liabilities, based on the above, could be significantly different if the key assumptions used by management for major determinants of the estimate vary from those planned. Management recognizes changes in this liability from the original estimate based on updated assumptions and actual experience. The statement of operations includes a charge of $70,836 (1999 - $148,336) for the impact of decisions approved in the year, interest charges on existing programs, changes in management's estimate and the Joint Planning Committee arbitration award of June 2, 2000. Management's estimate for the liabilities associated with early retirement and restructuring at March 31, including current and non-current amounts is:

	2000	1999
Human resource strategy (1999)	**$ 174,903**	$ 116,282
Human resource strategy (1996)	**71,724**	73,136
Lingan Colliery closure	**19,221**	24,320
Other early retirement incentives	**14,096**	14,372
Standby maintenance	**2,937**	6,068
	282,881	234,178
Less: current portion	**47,223**	16,462
Non-current portion	**$ 235,658**	$ 217,716

9. PROVISION FOR WORKERS' COMPENSATON

The Corporation's provision for Workers' Compensation represents the unfunded liability for the costs of benefits specified and administered by the Workers' Compensation Board of Nova Scotia for work-related injuries of current and former employees. The actuarially determined liability consists of: long term disability permanent awards in respect of approved awards and incidents incurred but not yet administered as claims; survivor benefits, comprised mainly of pension payments for past claims; and other costs consisting mainly of temporary compensation, rehabilitation and medical aid in respect of past claims. These amounts are presented on a net present value basis, excluding future administration costs. The actuary used assumptions, provided by management, in the calculation of the liability including: inflation rates, interest rates, mortality rates and aggregate claim projections for incidents which have occurred. The actuarial liability could be materially different if assumptions on which the valuation is based vary significantly in future years. Management recognizes changes in the liability based on extrapolation of actuarial results and recognizes adjustments arising from actuarial gains and losses in the year in which they occur. The statement of operations includes a charge of $26,788 (1999 - $17,290) for the cost of accidents that occurred in the year, interest charges on the Workers' Compensation obligation, administration costs, and changes in actuarial assumptions. The current service portion of $3,342 (1999 - $2,939) is included in the cost of product sold.

The Corporation's Workers' Compensation costs and obligations at March 31 consist of:

	2000	1999
Workers' Compensation obligations (actuarial value)	$ **148,171**	$ 138,992
Less: current portion	**6,271**	6,600
Non-current portion	$ **141,900**	$ 132,392
Workers' Compensation expense	$ **26,788**	$ 17,290
Workers' Compensation payments	$ **17,609**	$ 18,037

10. PROVISION FOR ENVIRONMENTAL COSTS

The Corporation has recorded its best estimate of anticipated future costs of environmental issues related to the decision on the future of the Corporation including: building demolition, clean-up, earthworks, water treatment and other reclamation works. This provision is based on management's best estimate of the cost of complying with its interpretation of the requirements of appropriate environmental laws and regulations.

In 1999, the Corporation engaged environmental consultants to assess its anticipated future environmental costs. The consultants prepared a range of estimates based on varying assumptions from a low of $72,000 to a high of $158,000. In 1998/99, the Corporation recorded its best estimate of the liability of $110,000. Implementation of activities that form the basis of this best estimate will require the development of a formal plan and subsequent approval and funding from the Government of Canada.

The estimate of the liability is based on significant assumptions made by management reflecting the announced future direction of the Corporation, including: definition of appropriate legislation, regulations and industry practice; likely action required to meet the appropriate legislation, regulations and industry practice; approval and funding from the Government of Canada; the nature and extent of past and present environmental concerns; the extent of actions necessary to deal with long term management of mine water; the extent of remediation required at the Victoria Junction Coal Preparation Plant; and discount rates used. Such estimates are subject to adjustment based on changes in laws and regulations and as new information becomes available. The estimate of the liability based on the above could be significantly different if the key assumptions used by management for determination of the estimate vary from those planned.

The liability at March 31. including current and non-current is:

	2000	1999
Building demolition	$ **7,980**	$ 8.000
Clean-up	**4,945**	5.000
Earthworks	**71,711**	72.000
Water treatment	**10,000**	10.000
Other reclamation	**15,000**	15.000
	109,636	110.000
Less: current portion	**700**	785
Non-current portion	$ **108,936**	$ 109.215

Included in the above amount is $8.900 (1999 - $8.900) calculated using the net present value (at 4% interest rate) of anticipated future cash flows. All other amounts are recorded without discounting.

11. CORPORATE TAXES

In April. 2000 the Corporation and Canada Customs and Revenue Agency resolved a long-standing dispute over corporate taxes payable. The Corporation owes Large Corporations Tax for 1990 to 1999 in the amount of $5.400 (1999 - $4.439). No Part 1 tax on income from a business was owing as a result of the application of allowances and loss carryforwards. The Corporation was not subject to the Nova Scotia tax on Large Corporations.

12. GOVERNMENT FUNDING

During 1999/00. the Government of Canada provided the Corporation with an appropriation of $78.000 (1999 - $40.662) approved by the Parliament of Canada to fund operating costs. Of the total appropriation. $56.000 was received during the year and $22.000 has been recorded as parliamentary appropriation receivable.

Working capital advances of $12.338 were repaid during 1999/00.

13. COMMITMENTS AND CONTINGENCIES

a) The Corporation has an operating lease for office space in the General Mining Building where it maintains its administrative offices. The lease is for a twenty year period ending in 2004. The annual lease payments fluctuate with changes in the lessor's mortgage interest rates. Current minimum annual lease payments are $1.198 at an interest rate of 7.9% (1999 - $1.198 at 7.9%).

b) In the ordinary course of business, various claims and lawsuits have been brought against the Corporation. It is the opinion of management that the settlement of these actions will not result in any material liabilities beyond any amounts already recorded. The Corporation intends to oppose these matters in their entirety.

Defence
Construction
(1951)
Limited

MANAGEMENT RESPONSIBILITY STATEMENT

The management of the Corporation is responsible for the performance of the duties delegated to it by the Board of Directors. These include the preparation of an Annual Report and the production of its contents, together with the financial statements. These statements, approved by the Board of Directors, were prepared in accordance with generally accepted accounting principles appropriate in the circumstances and consistently applied. Other financial and operating information appearing in the Annual Report is consistent with that contained in the financial statements.

Management relies on internal accounting control systems designed to provide reasonable assurance that relevant and reliable financial information is produced and that transactions comply with the relevant authorities.

Management also maintains financial and management control systems and practices designed to ensure the transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation. These systems and practices are also designed to ensure that assets are safeguarded and controlled and that the operations of the Corporation are carried out effectively. In addition, the Audit Committee, appointed by the Board of Directors, oversees the internal audit activities of the Corporation and performs other such functions as are assigned to it.

The Corporation's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing the report thereon.

Ross Nicholls
President and Chief Executive Officer

Karin Zabel
Chief Financial Officer

May 26, 2000

AUDITOR GENERAL OF CANADA VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Public Works and Government Services

I have audited the balance sheet of Defence Construction (1951) Limited as at March 31, 2000 and the statements of operations, surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act*, and the articles and by-laws of the Corporation.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 26, 2000

DEFENCE CONSTRUCTION (1951) LIMITED

Balance Sheet
as at March 31, 2000

ASSETS	2000	1999
Current		
Cash and short term investments (note 3)	$ 4,003,982	$ 2,969,701
Accounts receivable	1,013,651	965,381
Due from Department of National Defence (note 6)	2,385,988	3,002,060
Prepaids and advances	91,433	64,933
Capital assets (note 4)	7,495,054	7,002,075
	816,541	805,675
	$ 8,311,595	$ 7,807,750
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 2,565,227	$ 3,051,403
Current portion - provision for employee benefits (note 5)	419,198	397,219
	2,984,425	3,448,622
Provision for employee benefits (note 5)	2,139,305	2,093,065
	5,123,730	5,541,687
CAPITAL STOCK AND SURPLUS		
Capital stock		
Authorized - 1,000 common shares of no par value		
Issued - 32 common shares	32	32
Surplus	3,187,833	2,266,031
	3,187,865	2,266,063
	$ 8,311,595	$ 7,807,750

Contingencies (note 9)
(See accompanying notes)
Approved by the Board:

John McLure
Director

John Adams

John Adams
Director

DEFENCE CONSTRUCTION (1951) LIMITED

Statement of Cash Flows
for the year ended March 31, 2000

	2000	1999
Cash Flows From Operating Activities		
Net Income	$ 921,802	$ 245,114
Items not requiring cash		
Provision for employee benefits	197,247	378,070
Amortization	539,626	552,545
Loss on disposal of capital assets	2,424	–
Net increase (decrease) in non-cash working capital balances related to operations	55,126	(1,149,318)
	1,716,225	26,411
Employee benefits paid	(129,028)	(172,916)
	1,587,197	(146,505)

Cash Flows Used In Investing Activities		
Acquisition of capital assets	(552,916)	(205,764)
Increase (decrease) in cash during the year	1,034,281	(352,269)
Cash and short term investments at beginning of the year	2,969,701	3,321,970
Cash and short term investments at end of the year	$ 4,003,982	2,969,701

(See accompanying notes)

DEFENCE CONSTRUCTION (1951) LIMITED

Statement of Operations
for the year ended March 31, 2000

	2000	1999
Revenue	$ 19,564,199	$ 17,320,296
Expenses		
Salaries and employee benefits	13,369,024	11,824,687
Amortization of capital assets	539,626	552,545
Operating and administrative expenses	4,733,747	4,697,950
	18,642,397	17,075,182
Net income	$ 921,802	$ 245,114

Statement of Surplus
for the year ended March 31, 2000

	2000	1999
Surplus beginning of year	$ 2,266,031	$ 2,020,917
Net income	921,802	245,114
Surplus end of year	$ 3,187,833	$ 2,266,031

(See accompanying notes)

DEFENCE CONSTRUCTION (1951) LIMITED

Notes to Financial Statements
March 31, 2000

1. Authority and objective

Defence Construction (1951) Limited was incorporated under the *Companies Act* in 1951 pursuant to the authority of the *Defence Production Act* and was continued under the *Canada Business Corporations Act*. The Corporation is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The Corporation is not subject to income taxes.

The objective of the Corporation is principally to contract for and manage the architectural, engineering, construction and environmental services to support the infrastructure management requirements of the Department of National Defence, pursuant to the *Memorandum of Understanding* with the Department.

Until 1997, the Department of National Defence provided the Corporation with funding for its net cost of operations and for the purchase of capital assets. Effective April 1, 1997, all revenue is generated from fees charged for specific services provided.

2. Significant accounting policies

These financial statements are prepared in accordance with generally accepted accounting principles. The financial statements reflect the administrative expenses incurred in providing services to the Department of National Defence, as described above.

Capital assets

Capital assets are comprised of leasehold improvements, equipment and computers (which includes hardware, purchased software and software development costs). These assets are amortized on a straight line basis as follows:

Leasehold Improvements	10 years
All Other Capital Assets	5 years

Employee benefits

Employees are entitled to specific benefits on termination as provided for by conditions of employment. The liability for these benefits is recorded as the benefits accrue to employees.

Pension plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contributions to the plan are limited to an amount equal to the employees' contributions on account of current and certain past service. These contributions represent the total pension obligations of the Corporation and are charged to income on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

Revenue

Revenue is recognized in the year in which services have been performed.

3. Cash and short term investments

Management has segregated cash and short term investments for the purpose of:

	2000	1999
Operations	$ 864,677	$ 1,195,417
Future Capital Assets	1,000,000	600,000
Provision for Employee Benefits	2,139,305	1,174,284
	$ 4,003,982	$ 2,969,701

4. Capital assets

	2000			1999
	Cost	Accumulated Amortization	Net	Net
Equipment	$ 755,570	$ 515,397	$ 240,173	$ 203,678
Computers	4,539,566	4,037,304	502,262	601,997
Leasehold Improvements	82,340	8,234	74,106	–
	$ 5,377,476	$ 4,560,935	$ 816,541	$ 805,675

5. Provision for employee benefits

	2000	1999
Termination benefits	$ 2,031,975	$ 1,981,112
Retiree benefits	6,932	13,618
Vacation and overtime	419,198	397,219
Furlough benefits	100,398	98,335
	2,558,503	2,490,284
Less: current portion	419,198	397,219
	$ 2,139,305	2,093,065

6. Related party transactions

The Department of National Defence provides office space free of charge for some employees of the Corporation.

As at March 31, 2000 the net balance due from the Department of National Defence was $2,385,988 (1999 - $3,002,060).The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

7. Lease commitments

In addition to the free office space provided by the Department of National Defence, the Corporation leases extra accommodation for its operations. The future minimum annual lease payments are:

Year ending March 31	
2001	$ 439,326
2002	408,697
2003	394,308
2004	385,675
2005	260,705
	$ 1,888,711

8. Financial instruments

Accounts receivable and accounts payable are incurred in the normal course of business and are primarily due on demand and non-interest bearing. Short term investments are also incurred in the normal course of business and bear interest. The carrying amounts of each approximate fair value because of their short term to maturity. With the exception of amounts due from the Department of National Defence and other government departments, there are no concentration of accounts receivable with any one customer and, accordingly, no significant credit risk exists.

9. Contingencies

Claims and letters of credit aggregating $7,265,000 (1999 - $10,038,000) in respect of contractual obligations are currently outstanding. In the opinion of management and legal counsel, the position of the Corporation is defensible. However, the final outcome of such claims is not determinable. Any settlements resulting from the resolution of claims arising prior to March 31, 1997 will be funded by the Department of National Defence, in the year of settlement. Claims resulting from activities of the Corporation after March 31, 1997 may involve a joint liability between the Department of National Defence and the Corporation.

10. Comparative Figures

Certain of the 1998-1999 figures have been reclassified to conform with the presentation adopted for 1999-2000.

Enterprise
Cape
Breton
Corporation

Management's Responsibility For Financial Reporting

The accompanying financial statements of Enterprise Cape Breton Corporation and all information in this annual report have been prepared by the Corporation's management. The financial statements have been prepared in accordance with generally accepted accounting principles, using management's best estimates and judgements, where appropriate. Where there is more than one acceptable accounting alternative, management has chosen the one that is most appropriate to the circumstances of the Corporation.

Management is responsible for the integrity and objectivity of the information in the financial statements and annual report. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized and comply with relevant authorities, assets are safeguarded, and proper records are maintained to produce timely, reliable financial statements. In addition, the Audit Committee of the Board of Directors oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

The Audit Committee of the Board of Directors has periodic meetings with management and the independent auditors to discuss the financial reporting process as well as accounting and reporting issues. The financial statements are reviewed and approved by the Board of Directors upon the recommendation of the Audit Committee.

The Auditor General of Canada conducts an independent audit of the financial statements of the Corporation in order to express his opinion thereon.

Rick Beaton

May 19, 2000

Rick Beaton
Vice-President

Francis Mullins

Francis Mullins
Comptroller

Auditor's Report

To the Minister for the purposes of the *Atlantic Canada Opportunities Agency Act*

I have audited the balance sheet of Enterprise Cape Breton Corporation as at March 31, 2000 and the statements of operations and equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Enterprise Cape Breton Corporation Act* and the by-laws of the Corporation.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 19, 2000

Balance Sheet

as at March 31, 2000

	2000	1999
ASSETS		
Current assets		
Cash	$ 305,033	$ 3,989,920
Accounts receivable, net (Note 3)	5,395,035	3,519,499
Prepaid expenses	55,144	64,370
	5,755,212	7,573,789
Loans, net (Note 4)	2,415,982	2,317,020
Investments, net (Note 5)	400,000	400,000
Capital assets, net (Note 6)	280,672	246,075
	$ 8,851,866	$ 10,536,884
LIABILITIES		
Current liabilities		
Bank indebtedness	$ -	$ 37,838
Accounts payable and accrued liabilities (Note 7)	4,126,898	6,256,230
	4,126,898	6,294,068
Provision for employee termination benefits	463,059	465,486
	4,589,957	6,759,554
EQUITY		
Equity of Canada	4,261,909	3,777,330
	$ 8,851,866	$ 10,536,884

Commitments (Note 9)
Divestiture of Sydport Industrial Park (Note 11)

See accompanying notes to the financial statements.

Approved by the Board of Directors:

Director

Greg McKenzie
Director

Statement of Operations and Equity

for the year ended March 31, 2000

	2000	1999
Program expenses		
Development expenses (Note 8)	$ 4,798,892	$ 5,033,834
Other program expenses (Note 8)	1,724,382	2,202,332
Provision for loan impairment (Note 4)	332,571	561,721
Provision for doubtful investments	-	350,000
	6,855,845	8,147,887
Other expenses		
Administrative expenses	1,686,509	1,552,977
Amortization	99,309	79,726
	1,785,818	1,632,703
Total expenses	8,641,663	9,780,590
Revenue		
Rental facilities	289,011	569,331
Interest, investments and other	271,511	238,908
	560,522	808,239
Activities on behalf of the Atlantic Canada Opportunities Agency (Note 10)		
Program expenses	11,698,439	17,071,104
Salaries, professional and other	1,456,754	1,275,718
	13,155,193	18,346,822
Less: Costs recovered from ACOA	(13,155,193)	(18,346,822)
	-	-
Net cost of operations before parliamentary appropriation	8,081,141	8,972,351
Parliamentary appropriation	8,565,720	8,400,000
Net income (loss)	484,579	(572,351)
Equity, beginning of the year	3,777,330	4,349,681
Equity, end of the year	$ 4,261,909	$ 3,777,330

See accompanying notes to the financial statements.

Statement of Cash Flows

for the year ended March 31, 2000

	2000	1999
Cash flows from operating activities		
Cash received from ACOA	$ 11,939,490	$ 18,904,668
Parliamentary appropriation received	7,450,000	8,400,000
Cash received from rental activities and other parties	266,625	593,780
Cash received from investments and bank account	248,960	233,109
Payments made for program and administrative expenditures	(8,777,461)	(7,996,254)
Payments made on behalf of ACOA	(14,209,224)	(18,522,008)
	(3,081,610)	1,613,295
Cash flows from investing activities		
Loan repayments	388,609	434,277
Loan disbursements	(820,142)	(371,116)
Purchase of capital assets	(133,906)	(160,915)
	(565,439)	(97,754)
Net (decrease) increase in cash	(3,647,049)	1,515,541
Cash, term deposits and bank indebtedness, beginning of the year	3,952,082	2,436,541
Cash, end of the year	$ 305,033	$ 3,952,082

See accompanying notes to the financial statements.

Notes to the Financial Statements

March 31, 2000

1. The Corporation

Authority and objectives

Enterprise Cape Breton Corporation was established pursuant to the *Enterprise Cape Breton Corporation Act* (Part II of the *Government Organization Act*, Atlantic Canada, 1987) which was proclaimed on December 1, 1988. The Corporation is an agent Crown corporation listed in Schedule III, Part I of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*. Its objects, as stated in its enabling legislation, are:

> to promote and assist either alone or in conjunction with any person or the Government of Canada or of Nova Scotia or any agency of either of those governments, the financing and development of industry on the Island of Cape Breton to provide employment outside the coal producing industry and to broaden the base of the economy of the Island.

The Corporation entered into a memorandum of understanding with the Atlantic Canada Opportunities Agency establishing the arrangements for the Corporation to deliver the Agency's programs on the Island of Cape Breton.

2. Significant accounting policies

These financial statements have been prepared by management in accordance with generally accepted accounting principles.

a) Parliamentary appropriations

Parliamentary appropriations are recorded as funding in the statement of operations and equity in the year approved. The drawdowns against these appropriations are based upon cash requirements.

b) Management estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, expenses and the disclosure of commitments at the date of the financial statements. Despite the use of the Corporation's best estimates, it is reasonably possible that the estimates for loans and investments could change materially in the near term.

c) Loans

Loans, including repayable contributions, are recorded at the lower of cost and estimated net realizable value. Loans initially granted at a zero interest rate are recorded at the nominal amount of the loan.

Certain loans are subject to terms of forgiveness as stipulated in the loan contract. The amount of forgiveness is charged to operations when the loan is issued or restructured. If terms and conditions are not fulfilled, the forgiveness is reversed and the balance becomes due and payable.

Loans are written off after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is unlikely.

d) Allowance for loan impairment

Loans are classified as impaired when, in the opinion of management, there is reasonable doubt as to the timely collection of the full amount of principal and interest, where applicable. A specific allowance is established to reduce the recorded value of the loan to its estimated net realizable value if there is doubt as to the timely collection on a particular loan. Impaired loans are measured according to their estimated realizable amounts by discounting expected future cash flows at the effective interest rate inherent in the loans. For loans granted with a zero interest rate, impairment is calculated based on the expected future cash flows using the zero percent rate associated with the loan. This reflects a zero cost of capital for these loans because they are funded by appropriations provided by the Government of Canada. When future cash flows cannot be estimated with reasonable reliability, the estimated realizable amounts are measured at the fair value of any security underlying the loans, net of any expected costs of realization.

When necessary, a general allowance is established in respect of loans for which individual specific allowances cannot yet be determined. The general allowance is based upon an evaluation of the loan portfolio in which numerous factors are assessed, including an analysis of arrears, past loss experience, recent events and changes in economic conditions.

Initial and subsequent changes in the amount of impairment are recorded as a charge or credit to the allowance for loan impairment.

e) Interest income

Interest income is recorded on the accrual basis. When a loan becomes impaired, interest income ceases to be recognized. Recognition of interest income recommences when the specific allowance for loan impairment is reversed.

f) Investments

The Corporation has invested in preferred equity holdings and partnerships. These are shown at the lower of cost and estimated net realizable value. Estimated net realizable value is measured by discounting expected future cash flows. Investment income is recorded on an accrual basis. The Corporation records an allowance for doubtful investments for the amount by which the value of the investment has been impaired.

g) Capital assets

Capital assets are recorded at the lower of cost less accumulated amortization. Amortization is provided over the estimated useful lives of the capital assets using the straight-line method at the rates indicated below:

Buildings	up to 25 years
Equipment and furniture	4 to 10 years
Computer equipment and software	5 years
Leasehold improvements	up to 20 years
Vehicles	3 or 4 years

h) Pension plan

All eligible employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required equally from the employees and the Corporation. These contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

i) Termination benefits

Upon termination of employment, employees are entitled to certain benefits provided for under their conditions of employment. The cost of these benefits is expensed in the year in which they are earned. There are no other significant post employment benefits.

The liability for termination benefits is estimated by management without discounting, based on current entitlements.

3. Accounts receivable

Accounts receivable consist of:

	2000	1999
Due from the Atlantic Canada Opportunities Agency (Note 10)	$ 3,999,560	$ 3,284,681
Other receivables	279,755	234,818
Parliamentary appropriation	1,115,720	-
	$ 5,395,035	$ 3,519,499

The amount from the Atlantic Canada Opportunities Agency relates to expenditures made on behalf of the Agency pursuant to a memorandum of understanding. Other receivables are incurred in the normal course of business with no significant concentration of debtors.

Accounts receivable are due on demand, are non-interest bearing and the carrying amounts approximate fair values because of their short term to maturity.

4. Loans

At March 31, 2000 the Corporation had a portfolio of 100 loan accounts (1999 - 122) including repayable contributions. These loans are issued in order to promote economic development to support the corporate mandate. The amount included in the financial statement balance is net of an allowance for loan impairment. The balance consists of:

	2000			1999
	Amount Due	Allowance	Carrying Value	Carrying Value
Loans	$ 2,847,182	$ 1,603,484	$ 1,243,698	$ 1,092,003
Repayable contributions	2,124,580	970,551	1,154,029	1,217,852
Interest receivable	18,840	585	18,255	7,165
	$ 4,990,602	$ 2,574,620	$ 2,415,982	$ 2,317,020

The Corporation has five debtors (1999 - four) representing sixty-one percent of the amount due (1999 - fifty-five percent).

Forgivable loans totalling $614,836 (1999 - $401,540) are not included in the above balance. The statement of operations and equity includes a charge of $282,938 (1999 - $283,036) for recognition of forgivable loans made during the year. This charge is included in development expenses. If terms and conditions of the loans are not met, the amounts will become due and payable. Any amounts that would be recorded at that time would be net of any required allowance for loan impairment.

The allowance for loan impairment of $2,574,620 (1999 - $2,386,686) is management's best estimate of the difference between the recorded value of these accounts and the present value of the total amount the Corporation expects to collect on these accounts. For loans granted with a zero interest rate, the present value is calculated using a zero percent discount factor. The Corporation made significant assumptions in determining this estimate, including: collection amounts, timing of collection, economic conditions and interest rate factors. If the key assumptions used by management vary, then the estimate could be significantly different. The allowance for loan impairment consists of:

	2000				1999
	Beginning Balance	Write-offs	Provision	Ending Balance	Balance
Specific	$ 2,136,686	$ (144,637)	$ 582,571	$ 2,574,620	$ 2,136,686
General	250,000	-	(250,000)	-	250,000
	$ 2,386,686	$ (144,637)	$ 332,571	$ 2,574,620	$ 2,386,686

The fair value of loans is determined using expected future cash flows discounted at the Consolidated Revenue Fund lending rate to Crown corporations. The fair value of loans approximates $1,857,000 (1999 - $2,010,000). The fair value is $559,000 (1999 - $307,000) less than the carrying amount. The difference results from 78 percent (1999 - 73 percent) of the loan portfolio having a zero interest rate. Discounting zero interest rate loans at the lending rate to Crown corporations results in the difference between the fair value and the carrying amount.

The total portfolio consists of:

	2000			1999
Annual Interest Rate	**Amount Due**	**Allowance**	**Carrying Value**	**Carrying Value**
0%	$ 3,868,083	$ 2,306,044	$ 1,562,039	$ 2,021,610
Less than 10%	638,032	267,991	370,041	233,798
10% and over	465,647	-	465,647	54,447
	4,971,762	2,574,035	2,397,727	2,309,855
Interest receivable	18,840	585	18,255	7,165
	$ 4,990,602	$ 2,574,620	$ 2,415,982	$ 2,317,020

Included in the above balance are non-interest bearing repayable contributions of $1,154,209 (1999 - $1,217,852) net of the allowance for impairment.

Repayment dates of the loans are as follows:

	2000			1999
Date Due	**Amount Due**	**Allowance**	**Carrying Value**	**Carrying Value**
Past Due	$ 316,658	$ 292,181	$ 24,477	$ 34,024
2000	-	-	-	328,775
2001	422,193	101,057	321,136	259,178
2002	567,432	204,346	363,086	405,328
2003	565,040	230,550	334,490	383,275
2004	638,312	313,988	324,324	475,394
2005 & beyond	2,462,127	1,431,913	1,030,214	423,881
	4,971,762	2,574,035	2,397,727	2,309,855
Interest receivable	18,840	585	18,255	7,165
	$ 4,990,602	$ 2,574,620	$ 2,415,982	$ 2,317,020

5. Investments

The Corporation has made investments to promote economic development in Cape Breton. Management has recorded these investments net of an estimate of an allowance for impairment. The balance consists of:

	2000			1999
	Amount Due	Allowance	Carrying Value	Carrying Value
Interest in Office Building	$ 300,000	$ -	$ 300,000	$ 300,000
Shares/Partnership Units	850,000	750,000	100,000	100,000
	$ 1,150,000	$ 750,000	$ 400,000	$ 400,000

The Corporation's share in the net income, based on its percentage interest of the office building is $92,632 (1999 - $76,865). The shares and partnership units consist of non-voting redeemable and retractable preferred shares and partnership units in private sector entities. No dividends were received or declared during the year (1999 - nil).

The allowance for doubtful investments is based on significant assumptions by management of the timing, amount and discount rate. If these assumptions vary, the amounts could be significantly different. The fair values of investments, determined using discounted contracted future cash flows, approximate their carrying value.

6. Capital assets

	2000			1999		
	Cost	Accumulated Amortization & Write Down	Net Book Value	Cost	Accumulated Amortization & Write Down	Net Book Value
Land for development	$ 341,597	$ 341,596	$ 1	$ 482,319	$ 482,318	$ 1
Equipment, furniture, leaseholds	1,395,336	1,114,665	280,671	1,299,604	1,053,530	246,074
Rental facilities	2,306,051	2,306,051	-	15,697,200	15,697,200	-
	$ 4,042,984	$ 3,762,312	$ 280,672	$17,479,123	$17,233,048	$ 246,075

During the year, the Corporation transferred ownership of Sydport Industrial Park (see Note 11).

7. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of:

	2000	1999
Due to the Atlantic Canada Opportunities Agency	$ 203,781	$ 704,605
Payable on behalf of the Atlantic Canada Opportunities Agency	2,586,312	3,640,343
Other payables	1,336,805	1,911,282
	$ 4,126,898	$ 6,256,230

The amounts due to and payable on behalf of the Atlantic Canada Opportunities Agency relate to activities on behalf of the Agency pursuant to the memorandum of understanding. Other payables are subject to normal commercial conditions and relate to development and administrative expenditures.

8. Program expenses

Development and other program expenses consist of:

	2000	1999
Development expenses		
Tourism, entertainment and culture	$ 2,716,674	$ 2,662,218
Knowledge-based industries	819,500	746,169
Specific initiatives	720,607	509,396
Other business development	134,464	486,087
Oil and gas	392,531	404,281
Resources industries	13,866	192,567
Youth skills	1,250	33,116
	$ 4,798,892	$ 5,033,834
Other program expenses		
Program support	$ 1,338,373	$ 1,376,505
Rental facilities	386,009	825,827
	$ 1,724,382	$ 2,202,332

9. Commitments

(a) As at March 31, 2000, the Corporation had outstanding commitments for development programs in the amount of $14,940,845 (1999 - $2,864,643). This amount includes a commitment of $13.0 million for the establishment of a call centre in Cape Breton.

(b) Future minimum payments by fiscal year on operating leases in excess of one year are as follows:

2001	$ 457,798
2002	468,153
2003	466,542
2004	466,542
2005 and beyond	505,419
	$ 2,364,454

10. Related party transactions

In addition to those related party transactions disclosed elsewhere in these financial statements, the cost of services provided by other federal government departments, agencies, and Crown corporations are reflected in the statement of operations and equity and totalled $137,284 (1999- $258,654). These transactions are in the normal course of operations and are measured at the exchange amount.

11. Divestiture of Sydport Industrial Park

On September 15, 1999, the Corporation transferred ownership of the Sydport Industrial Park to a private sector group. The asset had a carrying value of $1 because of previous writedowns. The sale price for this transaction was $3.1 million. In consideration, the Corporation received a 3-year mortgage on the property for this amount at an annual interest rate of 6.75%. The agreement has an option for one 2-year extension. The mortgage and related interest can be forgiven through credits for specified levels of employment created. An investment of $5.1 million in capital improvements is also required to be made by the purchaser. Employment credits will be determined by a prescribed formula and calculated by the Corporation. If the purchaser significantly violates the terms of the agreement, the Corporation has the right to retake possession of the property.

The intent of the agreement is that no cash, for interest or principal amounts, will be received by the Corporation. The sale price is to be forgiven through employment credits and capital improvements, therefore the gain on the sale and related mortgage of $3.1 million is not reflected in the financial statements of the Corporation.

12. Comparative figures

The Corporation adopted the new recommendation of the Canadian Institute of Chartered Accountants on its cash flow statement and implemented the direct method of reporting cash flows. As a result, the statement of cash flows for the prior year has been restated in order to disclose the composition of cash flows received or payments made by the Corporation through operating and investing activities. Amounts reported in the balance sheet and statement of operations and equity are unaffected by this change. Previously the indirect method was used to report the changes in cash.

Export
Development
Corporation

Financial Reporting Responsibility

The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with generally accepted accounting principles appropriate in the circumstances and consistently applied. The integrity and objectivity of the data in these consolidated financial statements are management's responsibility. The consolidated financial statements include some amounts, such as the allowances for losses on loans and claims, that are necessarily based on management's best estimates and judgment. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the consolidated financial statements.

In support of its responsibility, management maintains financial management control and information systems and management practices to provide reasonable assurance that the financial information is reliable, that the assets are safeguarded and the operations are carried out effectively. The Corporation has an internal audit department whose functions include reviewing internal controls and their application, on an ongoing basis.

The Board of Directors of EDC is responsible for the management of the business and activities of the Corporation. In particular, it is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which is composed of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis.

Contracts which, in the opinion of EDC, involve risks in excess of that which the Corporation would normally undertake, may be entered into under the authority of the Minister for International Trade and the Minister of Finance where the Minister for International Trade considers them to be in the national interest. Funds required for such contracts are paid to the Corporation by the Minister of Finance out of the Consolidated Revenue Fund, and funds recovered are remitted to the Consolidated Revenue Fund, net of amounts withheld to cover related administrative expenses. These transactions, which are known as Canada Account transactions, are shown in note 19 to the Corporation's consolidated financial statements and the responsibility of the Board of Directors for these transactions is limited to the management of the administration thereof by EDC.

The Auditor General of Canada conducts an independent audit, in accordance with generally accepted auditing standards, and expresses his opinion on the consolidated financial statements. His report is presented on the following page.

P. Allen

A. Ian Gillespie
President and
Chief Executive Officer

Peter Allen
Senior Vice-President and
Chief Financial Officer

Auditor's Report

AUDITOR GENERAL OF CANADA
VÉRIFICATEUR GÉNÉRAL DU CANADA

To the Minister for International Trade

I have audited the consolidated balance sheet of the Export Development Corporation as at December 31, 1999 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation and of its wholly-owned subsidiary that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Export Development Act* and regulations and the by-laws of the Corporation and its wholly-owned subsidiary.

L. Denis Desautels

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
February 3, 2000

consolidated Balance sheet

as at December 31, 1999

($ in millions)	1999	1998
Assets		
Cash and Investments		
Cash and cash equivalents	**778**	81
Marketable securities (note 3)	**2,452**	1,318
Investments (note 4)	**168**	331
Accrued interest	**21**	13
	3,419	1,743
Loans Receivable		
Net loans receivable (notes 5, 6 and 7)	**14,844**	12,989
Accrued interest and fees	**291**	222
	15,135	13,211
Other		
Recoverable insurance claims (note 10)	**77**	44
Derivative related amounts	**739**	438
Other assets	**53**	44
	869	526
Total Assets	**$19,423**	$15,480
Liabilities and Shareholder's Equity		
Loans Payable (notes 12 and 13)		
Loans payable	**16,248**	12,636
Accrued interest	**697**	465
	16,945	13,101
Other Liabilities and Deferred Revenue		
Accounts payable and other credits	**92**	133
Deferred insurance premiums	**24**	19
Derivative related amounts	**110**	111
Allowance for claims on insurance and guarantees (note 10)	**454**	436
	680	699
Loan Commitments and Contingent Liabilities (notes 8 and 9)		
Shareholder's Equity		
Share capital (note 14)	**983**	983
Retained earnings	**815**	697
	1,798	1,680
Total Liabilities and Shareholder's Equity	**$19,423**	$15,480

See accompanying notes.

Approved by the Board of Directors

J. Pattillo
Director

A. Ian Gillespie
Director

consolidated statement of income and Retained Earnings

for the year ended December 31, 1999

($ in millions)	**1999**	1998
Interest income		
Loans	**1,258**	1.055
Marketable securities and investments	**146**	126
	1,404	1.181
Interest expense	**796**	642
Net Interest Income	**608**	539
Insurance Premiums and Guarantee Fees	**133**	110
Provision for Credit Losses (note 11)	**523**	433
Income after provision for credit losses	**218**	216
Administrative Expenses	**100**	81
Net Income	**118**	135
Retained Earnings		
Beginning of year	**697**	562
End of year	**$815**	$697

See accompanying notes

consolidated statement of cash flows

for the year ended December 31, 1999

($ in millions)	1999	1998
Operating Activities		
Net income	**118**	135
Items not affecting cash and cash equivalents		
Provision for credit losses	**523**	433
Net increase in accrued interest and fees receivable	**(253)**	(114)
Net increase in accrued interest and fees payable	**84**	88
Other changes	**(147)**	(20)
Cash flows from operating activities	**325**	522
Investing Activities		
Loan disbursements	**(6,374)**	(5,822)
Loan repayments	**3,380**	2,806
(Increase)/decrease in marketable securities	**(1,208)**	221
Decrease in investments	**163**	77
Cash flows used in investing activities	**(4,039)**	(2,718)
Financing Activities		
Issue of long-term loans payable	**6,755**	3,455
Repayment of long-term loans payable	**(2,267)**	(2,931)
Increase/(decrease) in short-term loans payable	**(57)**	1,726
Cash flows from financing activities	**4,431**	2,250
Effect of exchange rate changes on cash and cash equivalents	**(20)**	3
Net increase in cash and cash equivalents	**697**	57
Cash and Cash Equivalents		
Beginning of year	**81**	24
End of year	**$778**	$81
Represented by		
Cash	**18**	81
Treasury bills	**760**	–
	$778	$81
Supplemental Information		
Cash paid for interest	**$708**	$572

See accompanying notes.

Notes to the consolidated Financial statements

1. Corporate Mandate and Activities

Export Development Corporation ("the Corporation" or "EDC") was established on October 1, 1969, by the *Export Development Act* ("the Act"), a statute of the Parliament of Canada which was last amended effective June 10, 1993. The Corporation is an agent of Her Majesty in right of Canada and was established for the purposes of supporting and developing, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities. This Act as amended in 1993 gives EDC the flexibility to consider a wider range of options to meet the needs of Canadian exporters and those investing in foreign markets. The Act provides that a review of the provisions and operation of the Act must be undertaken at specified regular intervals. The first such review was completed in 1999. The Standing Senate Committee on Banking, Trade and Commerce is currently reviewing the report pertaining to this review. The Corporation is accountable for its affairs to Parliament through the Minister for International Trade.

EDC incorporated Exinvest Inc. ("the Subsidiary") under the *Canada Business Corporations Act* in 1995. The activities of the Subsidiary have been consolidated with those of the Corporation.

The earnings of the Corporation and its Subsidiary are not subject to the requirements of the *Income Tax Act*.

The Corporation is subject to a limit imposed by the Act on its contingent liability programs. The Act specifies that the Corporation's contingent liabilities in respect of the principal amounts owing under all outstanding arrangements shall at no time exceed an amount equal to 10 times the authorized capital of the Corporation, or such a greater amount as may be specified in an appropriation Act. During 1999 the limit was increased from $15 billion to $17.5 billion by an appropriation Act. As at December 31, 1999, the contingent liabilities are $12.7 billion (1998 – $11.8 billion).

EDC is for all purposes an agent of Her Majesty in right of Canada. All obligations under debt instruments issued by the Corporation are obligations of Canada. The Act allows the Corporation to borrow up to a maximum of 15 times the aggregate of its current paid-in capital and the retained earnings determined in accordance with the previous year's audited financial statements. The maximum applicable to December 31, 1999, is $25.2 billion (1998 – $23.2 billion), against which borrowings amounted to $16.0 billion (1998 – $12.6 billion).

2. Summary of Significant Accounting Policies

Consolidated Statement of Cash Flows

In 1999, EDC adopted the new recommendations of the CICA with respect to the presentation of cash flow information.

Under these new recommendations, cash equivalents represent short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents on EDC's balance sheet comprise cash and Treasury bills. Cash flows arising from transactions in a foreign currency are translated at the yearly average exchange rate. As well, investing or financing transactions that do not require the use of cash or cash equivalents are excluded from the statement of cash flows and disclosed elsewhere in the financial statements.

Marketable Securities

Securities, which are being held to maturity, are carried at cost. Gains and losses on these securities are recognized in income only when they are realized and the asset is removed from the balance sheet. In the case of a significant and other than temporary loss in the value of a security carried at cost, the security would be written down in value at the time of impairment. Temporary investments are carried at market value. The gains and losses arising from securities carried at market value are included in marketable securities and investment interest income.

Net Loans Receivable

Net loans receivable are stated net of non-accrued capitalized interest, deferred loan revenue and the allowance for losses on loans. Non-accrued capitalized interest represents contractual interest capitalized according to rescheduling agreements with sovereign borrowers during which time the loans are classified as impaired. Rescheduled loans are considered performing unless they meet the criteria of impaired loans.

Loan interest is recorded on an accrual basis until such time as management determines that a loan should be classified as impaired. Loans are classified as impaired when circumstances indicate that the Corporation no longer has reasonable assurance that the full amount of principal and interest will be collected on a timely basis in accordance with the terms of the loan agreement. Amounts received for impaired loans are credited to the book value of the loans. No portion of cash received on a loan subsequent to its classification as impaired is recorded as interest income until such time as any specific allowance has been reversed, and it is determined that the loan principal is fully collectible in accordance with the contractual terms of the loan. An impaired loan is restored to a performing basis after a pattern of regular payments has been established, normally three years. When the Corporation restores the impaired loan to an accrual basis, previously non-accrued capitalized interest is recognized over the remaining term of the loan.

Deferred loan revenue, comprising exposure fees and administration fees, is recognized as interest income and amortized as a yield increment over the term of the related loan.

Measurement Uncertainty

To prepare the Corporation's financial statements in accordance with generally accepted accounting principles, it is necessary for management to make assumptions and estimates based on information available as at the date of the financial statements. The most material of these estimates are the allowance for losses on loans (Note 7) and the allowance for claims on insurance and guarantees (Note 10). Management determines the allowances using various assumptions, based on its assessment of the impact of recent events and changes in economic conditions and trends. These estimates are reviewed periodically during the course of the year as required and in detail as at the date of the financial statements. Actual losses on loans and liabilities for contingencies incurred may vary significantly from management's estimates. The uncertainty in the estimation process arises, in part, from the use of historical data to identify and quantify credit deterioration. While historical data may be the most reliable basis available to calculate these amounts, economic events may occur in the near term that render previous assumptions invalid and cause a material change to management's estimates.

The general allowance for losses on loans is estimated using historical loan default and recovery rates. For specifically identified impaired loans, recoverable amounts are calculated using the best estimates of the timing and amount of future cash flows for each borrower.

The allowance for claims on insurance and guarantees contains two components: the portion arising from the insurance program and the portion relating to loan guarantees. The allowance pertaining to the insurance program is calculated using discounting of estimated future net claims less future net premiums, based on assumptions consistent with the Corporation's past experience. Additional amounts are provided for possible adverse deviation from best estimate assumptions. While these amounts vary with the degree of uncertainty inherent in each program and with the homogeneity of policies (size and term) within each portfolio, the valuation process conforms to the recommendations of the Canadian Institute of Actuaries. The allowance pertaining to loan guarantees uses the same assumptions as the general allowance for losses on loans.

Allowance for Losses on Loans

The allowance for losses on loans is based on a review of collectibility of all loans to commercial and sovereign borrowers and represents management's best estimate of probable credit losses on loans receivable.

Specific allowances are established on an individual loan basis to recognize credit losses. When a loan is considered impaired, the carrying value of the loan is reduced to its estimated realizable value by discounting expected cash flows at the rates inherent in the loan. The amount of initial impairment and any subsequent changes due to the re-evaluation of estimated future cash flows are recorded through the provision for credit losses as an adjustment to the specific allowance for impaired loans.

General allowances include all accumulated provisions for losses on loans which are prudential in nature and for which impairment has not been specifically identified. In establishing the general component of the allowance, management models its portfolio into credit risk pools and applies information from external credit-rating agencies, augmented by corporate experience, on historical default rates and loss percentages to determine the allowance for losses on loans. These allowances are established to absorb credit losses in the portfolio where, in management's opinion, there is evidence of impairment given the current economic conditions and trends surrounding particular industries, geographic regions or other loan concentrations in the portfolio. This evidence can exist as early as the time of disbursement.

Recoverable Insurance Claims

Recoverable insurance claim payments are recorded at estimated recoverable values. Subsequent net gains or losses on recovery are credited or charged to the allowance for claims on insurance and guarantees when recoverable values are re-estimated.

Allowance for Claims on Insurance and Guarantees

The allowance for claims on insurance is based on an actuarial review of net loss experience and potential net losses and represents management's best estimate of the net present value of the liability under existing policies. The allowance for loan guarantees is determined on the same basis as the general allowance for losses on loans. The related provision is recorded through the provision for credit losses.

Insurance Premiums

For short-term insurance policies, premiums are taken into income at the commencement of coverage. Premiums on other export insurance policies are taken into income using methods which generally reflect the exposures over the terms of the policies. Reinsurance premiums and recoveries on losses incurred are recorded as reductions of the respective income and balance sheet accounts. Unearned premiums on insurance transferred to reinsurers and estimates of amounts recoverable from reinsurers on unpaid claims are deducted from deferred premiums and recoverable claims respectively.

Derivative Financial Instruments

The Corporation uses a variety of derivative financial instruments to manage operating exposures such as foreign exchange fluctuations and changes in interest rates. These derivative financial instruments are designated and effective as hedges. These contracts are carried on an accrual basis. Premiums paid or discounts received on these instruments are deferred and amortized over the life of the contract. Net receipts or payments are recognized in income on an accrual basis in the same period and the same financial statement category to which the contract is related. Where netting agreements exist, principal and accrued interest on contracts hedging long-term debt is aggregrated by counterparty. Resulting receivable balances are recognized in other assets and resulting payable balances are recognized in other liabilities and deferred revenue. Principal and accrued interest on derivative financial instruments hedging marketable securities are included in marketable securities. Principal and accrued interest on derivative financial instruments hedging short-term payables are included in loans payable.

Translation of Foreign Currency

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the end of the year. Income and expenses are translated at monthly average exchange rates in effect during the year. Exchange gains and losses resulting from the translation of foreign currency balances and transactions are included with interest expense.

Interest Expense

Interest expense includes expenses of commercial paper, registered claims, bonds, derivative financial instruments, the amortization of debt discount and issue expenses, and foreign exchange gains and losses. Gains or losses incurred when the Corporation repurchases its bonds, and unwinds any swaps related to those bonds, are either taken into income at the time of the transaction, or deferred and amortized over the life of a replacement debt issue, should one be issued.

3. Marketable Securities

The Corporation maintains liquidity sufficient to meet general operating requirements, to maintain stability in the short-term borrowing program and to provide flexibility in achieving corporate objectives. In order to meet these varied needs, marketable securities are held in either the investment portfolio or the temporary investment portfolio.

Securities in the investment portfolio are held for liquidity and for the longer term. Temporary investments are intended to be held for a short period of time. Swap contracts are agreements between two counterparties to exchange obligations such as interest payments over an agreed-upon period, each calculated using a different interest rate index and denominated in either the same currency or a different currency.

($ in millions)	[illegible]			**1999**	1998
	[illegible] Term to Maturity*				
	[illegible]	[illegible] years	**Over 3 years**	**Total**	Total
Investment portfolio					
Fixed rate securities					
Canadian government **	**147**	**297**	**72**	**516**	431
Corporate	**25**	**52**	**17**	**94**	40
Financial institutions	**11**	**51**	**–**	**62**	80
Other sovereign	**–**	**–**	**14**	**14**	37
Total fixed rate securities	**183**	**400**	**103**	**686**	588
Swap contracts	**(41)**	**(144)**	**(17)**	**(202)**	(162)
Net fixed	**142**	**256**	**86**	**464**	426
*Yield to maturity %**	***5.61***	***6.38***	***5.98***	***5.93***	*6.06*
Floating rate securities					
Canadian government **	[illegible]	**–**	**–**	**–**	13
Corporate	**228**	**–**	**–**	**228**	107
Financial institutions	**1,086**	**–**	**–**	**1,086**	299
Other sovereign	[illegible]	**–**	**–**	**–**	11
Total floating rate securities	**1,314**	**–**	**–**	**1,314**	430
Swap contracts	**32**	**136**	**15**	**183**	155
Net floating	**1,346**	**136**	**15**	**1,497**	585
*Yield to reset %**				***5.55***	*5.04*
Total investment portfolio	**1,488**	**392**	**101**	**1,961**	1,011
Temporary investments					
Floating rate securities					
Canadian government**	**12**	**–**	**–**	**12**	–
Corporate	**127**	**–**	**–**	**127**	269
Financial institutions	**332**	**–**	**–**	**332**	38
Total temporary investments	**471**	**–**	**–**	**471**	307
Spot yield %				***5.18***	*5.08*
Value at purchase				***468***	*306*
Total Marketable Securities	**$1,959**	**$392**	**$101**	**$2,452**	$1,318

* *Refers to yield and term to maturity for fixed rate investments, and yield and term to reset for floating rate investments.*

** *Canadian government includes federal, provincial, municipal governments and Crown corporations.*

Credit exposure arises from the possibility that a counterparty may default on its obligations. Credit exposure related to securities held in the investment portfolio and the temporary investment portfolio is represented by their carrying value. For swap contracts, it is a fraction of the notional amount of the instruments shown above, and is represented by the replacement cost of those contracts that have a positive fair value (a contract which, if settled currently, would result in a gain). Credit exposure for swap contracts held in the investment portfolio is included as part of Note 16.

4. Investments

Investments comprise $115 million (1998 – $110 million) of restricted cash and securities held by EDC's subsidiary Exinvest Inc. and notes issued by Vancouver Port Authority (formerly Vancouver Port Corporation) and a Crown corporation, the Royal Canadian Mint, totaling $53 million (1998 – $221 million). The Crown corporation is related to EDC as a result of common ownership. EDC intends to hold these notes to maturity. The investment with the Crown corporation was transacted at fair value, made on the same terms as those with third parties with similar credit risk, and is recorded at cost.

($ in millions)	1999				1998
	Remaining Term to Maturity*				
	Under 1 year	1 to 3 years	Over 3 years	Total	Total
Fixed rate investments	4	8	41	53	56
Floating rate investments	115	–	–	115	275
Total Investments	$119	$8	$41	$168	$331
*Yield %**	*5.13*	*6.33*	*6.46*	*6.33*	*6.23*

* *Refers to yield and term to maturity for fixed rate investments, and yield and term to reset for floating rate investments.*

5. Net Loans Receivable

The following table shows the contractual maturity and related contractual effective yields for gross loans receivable. The yields are computed on a weighted average basis by amount and term. Floating rate yields are expressed as spreads over base rates which consist mainly of LIBOR for U.S. dollars and Prime for Canadian dollars.

($ in millions)	1999					1998				
	Fixed $	Yield to Maturity %	Floating $	Spread %	Total $	Fixed $	Yield to Maturity %	Floating $	Spread %	Total $
Performing:										
Overdue	108	9.11	8	3.21	116	40	9.27	14	2.11	54
1999	–	–	–	–	–	827	8.74	1,719	2.58	2,546
2000	855	8.34	2,155	1.58	3,010	703	8.73	947	1.94	1,650
2001	926	8.58	1,683	2.33	2,609	802	8.85	1,030	1.89	1,832
2002	675	8.47	1,091	1.83	1,766	634	8.59	844	1.77	1,478
2003	582	8.23	910	1.55	1,492	519	8.35	765	1.48	1,284
2004	566	8.00	747	1.60	1,313	478	8.08	545	1.56	1,023
2005–2009	2,040	7.76	2,368	1.37	4,408	1,606	7.81	1,686	1.29	3,292
2010 and beyond	1,669	7.68	907	0.88	2,576	1,004	7.83	432	0.86	1,436
Performing	7,421	7.81	9,869	1.58	17,290	6,613	8.01	7,982	1.83	14,595
Impaired (Note 6)	176		1,132		1,308	155		1,774		1,929
Gross loans receivable	$7,597		$11,001		$18,598	$6,768		$9,756		$16,524
Less: Non-accrued capitalized interest on										
Impaired loans (Note 6)					573					1,041
Performing loans *					609					214
Loans receivable					17,416					15,269
Less: Allowance for losses on loans (Note 7)					2,324					2,060
Deferred loan revenue					248					220
Net Loans Receivable					$14,844					$12,989

* *Represents the unamortized balance that accrued while the loan was impaired.*

At December 31, 1999, the floating rate performing gross loans receivable are yielding 7.52% (1998 – 7.19%) with an average term to reset of 108 days (1998 – 106 days).

The breakdown of the Corporation's performing gross loans receivable between sovereign and commercial is as follows:

($ in millions)	1999					1998				
	Fixed $	**Yield to Maturity %**	**Floating $**	**Spread %**	**Total $**	Fixed $	Yield to Maturity %	Floating $	Spread %	Total $
Sovereign	**3,256**	**8.45**	**3,027**	**1.23**	**6,283**	3.279	8.57	2.487	1.33	5.766
Commercial	**4,165**	**7.45**	**6,842**	**1.75**	**11,007**	3.334	7.63	5.495	2.03	8.829
Total	**$7,421**	**7.81**	**$9,869**	**1.58**	**$17,290**	$6.613	8.01	$7.982	1.83	$14.595

The following reflects the movement of non-accrued capitalized interest during the year:

($ in millions)	**1999**	1998
Balance at beginning of year	**1,255**	1,082
Capitalized interest	**68**	155
Amortization	**(69)**	(49)
Cash receipts	**(2)**	0
Foreign exchange	**(70)**	67
Balance at end of year	**$1,182**	$1.255

6. Impaired Loans Receivable

The Corporation has $1.308 million impaired gross loans receivable (1998 – $1.929 million) of which $1.060 million is sovereign (1998 – $1.784 million) and $248 million is commercial (1998 – $145 million). The following reflects the movement in the impaired loans portfolio during the year:

($ in millions)	**1999**	1998
Balance at beginning of year	**1,929**	1,785
Loans classified as impaired	**161**	40
Loans reinstated to performing	**(647)**	–
Capitalized interest	**39**	112
Principal repayments	**(15)**	(18)
Receipts from the Government of Canada for sovereign debt relief	**(59)**	(97)
Foreign exchange	**(100)**	107
Balance at end of year	**$1,308**	$1,929

The largest concentrations of gross loans receivable for impaired loans are listed in the following table:

($ in millions)	1999				1998		
	Gross Loans Receivable	**Non-accrued Capitalized Interest**	**Loans Receivable**		Gross Loans Receivable	Non-accrued Capitalized Interest	Loans Receivable
Sovereign							
Cameroon	**379**	**234**	**145**	Peru	673	491	182
Côte d'Ivoire	**235**	**169**	**66**	Cameroon	433	233	200
Russia	**117**	**46**	**71**	Côte d'Ivoire	259	162	97
Congo	**52**	**40**	**12**	Russia	120	47	73
Gabon	**50**	**25**	**25**	Congo	55	43	12
Other	**227**	**53**	**174**	Other	244	62	182
Sub-total	**1,060**	**567**	**493**		1,784	1,038	746
Commercial	**248**	**6**	**242**		145	3	142
Total Impaired	**$1,308**	**$573**	**$735**		$1,929	$1,041	$888
Less: Specific allowance			**402**				421
Net Impaired Loans Receivable			**$333**				$467

During 1999, payments of principal and interest from borrowers for impaired loans were $33 million (1998 – $62 million). These amounts were applied to the book value of the impaired loans and did not affect interest income.

7. Allowance for Losses on Loans

The composition of the allowance for losses on loans is as follows:

($ in millions)			1999			1998
	Sovereign	**Commercial**	**Total**	Sovereign	Commercial	Total
Specific allowance for impaired loans	**191**	**211**	**402**	296	125	421
General allowance	**655**	**1,267**	**1,922**	657	982	1.639
Total	**$846**	**$1,478**	**$2,324**	$953	$1.107	$2.060

The specific allowance for impaired loans reduces the carrying value of impaired loans to the net present value of expected cash flows. Estimated cash flows are based on historical payments from sovereign borrowers, demonstrating to a large extent each borrower's willingness and ability to meet future payments. The historical payments are then modified when necessary to derive the estimated future cash flows, which are then discounted using rates inherent in agreements.

The Corporation has significant geographic concentrations in below investment grade countries, as determined by external credit-rating agencies. Seven such countries, as outlined below, represent $4,675 million or 27% of the Corporation's performing loans receivable.

($ in millions)		1999			1998
Country	**Performing Gross Loans Receivable**	**% of Performing Loans**	Country	Performing Gross Loans Receivable	% of Performing Loans
Indonesia	**896**	**5**	Indonesia	845	6
Peru	**741**	**4**	Brazil	707	5
Brazil	**738**	**4**	Mexico	625	4
Mexico	**713**	**4**	Algeria	523	4
Venezuela	**609**	**4**	Venezuela	495	3
Algeria	**527**	**3**	Argentina	290	2
Colombia	**451**	**3**	Turkey	286	2
Total	**$4,675**	**27**	Total	$3.771	26

In addition, the Corporation has a single counterparty loan receivable of $1,151 million with a ground transportation entity in the United States.

During the year, changes to the allowance for losses on loans were as follows:

($ in millions)			1999			1998
	Specific	**General**	**Total**	Specific	General	Total
Balance at beginning of year	**421**	**1,639**	**2,060**	488	1,140	1,628
Portfolio growth	**(4)**	**290**	**286**	–	276	276
Credit migration	**–**	**90**	**90**	–	108	108
Net increase/(decrease) in impairment	**21**	**–**	**21**	(71)	–	(71)
Foreign exchange	**(36)**	**(97)**	**(133)**	4	115	119
Balance at end of year	**$402**	**$1,922**	**$2,324**	$421	$1,639	$2,060

8. Loan Commitments

The Corporation has undisbursed commitments of $5,345 million (1998 – $5,813 million). Over the next two years, management estimates that the Corporation will disburse 65% of the remaining undisbursed commitments.

The projected disbursement of the loan commitments is as follows:

($ in millions)	1999		1998	
Year	**Projected Disbursements**	**%**	Projected Disbursements	%
1999	**–**	**–**	2.734	47
2000	**2,798**	**52**	1.033	18
2001	**706**	**13**	353	6
2002 and beyond	**1,841**	**35**	1.693	29
Total	**$5,345**	**100**	$5.813	100

Undisbursed commitments with their locked-in effective yields are outlined in the following table. All yields are computed on a weighted average basis and the spreads over floating interest rates are represented mainly by LIBOR for U.S. dollars.

($ in millions)	1999				1998			
	Fixed $	**Spot Yield %**	**Floating $**	**Spread %**	Fixed $	Spot Yield %	Floating $	Spread %
Sovereign	**1,891**	**8.35**	**215**	**2.72**	2.158	8.47	502	2.54
Commercial	**71**	**6.83**	**3,168**	**1.83**	63	8.28	3.090	2.03
Total	**$1,962**	**8.29**	**$3,383**	**1.88**	$2.221	8.47	$3.592	2.10

9. Contingent Liabilities

As at December 31, the Corporation has insurance policies and guarantees outstanding of $12,721 million (1998 – $11,794 million) which mature as follows:

($ in millions)	1999	1998
Short-term program	**7,147**	6,850
Medium-term program		
1999	**–**	589
2000	**1,058**	872
2001	**963**	744
2002	**299**	242
2003	**1,721**	1,373
2004	**283**	91
2005–2009	**795**	531
2010 and beyond	**455**	502
Total	**$12,721**	$11,794

The major concentrations by location of ultimate risk are as follows:

($ in millions)	1999			1998			
	Short-term	**Medium-term**	**Total**		Short-term	Medium-term	Total
U.S.	**2,821**	**1,367**	**4,188**	U.S.	2,538	1,377	3,915
Canada	**1,036**	**1,102**	**2,138**	Canada	1,024	674	1,698
Brazil	**419**	**281**	**700**	Brazil	353	301	654
China	**217**	**174**	**391**	China	226	153	379
U.K.	**141**	**182**	**323**	U.K.	155	224	379
Other	**2,513**	**2,468**	**4,981**	Other	2,554	2,215	4,769
Total	**$7,147**	**$5,574**	**$12,721**	Total	$6,850	$4,944	$11,794

Reinsurance of $520 million (1998 – $179 million) has been deducted from the insurance policies outstanding.

10. Recoverable Insurance Claims and Allowance for Claims on Insurance and Guarantees

During the year, changes to the recoverable insurance claims were as follows:

($ in millions)	**1999**	1998
Balance at beginning of year	**44**	28
Claims paid	**134**	72
Claims recovered	**(17)**	(19)
Re-evaluation of recoverable claims	**(82)**	(39)
Foreign exchange	**(2)**	2
Balance at end of year	**$77**	$44

Of the $134 million in claim payments made during 1999, 78% were related to the short-term program. The largest concentrations of claim payments and recoveries were in the following countries:

($ in millions)	**1999**			1998	
	Claims Paid	**Claims Recovered**		Claims Paid	Claims Recovered
U.S.	**34**	**7**	U.S.	21	5
Russia	**27**	**–**	Italy	10	8
Hong Kong	**18**	**–**	Mexico	9	2
China	**10**	**–**	India	5	–
Brazil	**6**	**1**	Canada	4	1
Other	**39**	**9**	Other	23	3
Total	**$134**	**$17**	Total	$72	$19

During the year, changes to the allowance for claims on insurance and guarantees were as follows:

($ in millions)	**1999**	1998
Balance at beginning of year	**436**	336
Provision for claims on insurance	**133**	88
Provision for loan guarantees	**(7)**	32
Re-evaluation of recoverable claims	**(82)**	(39)
Foreign exchange	**(26)**	19
Balance at end of year	**$454**	$436

11. Provision for Credit Losses

The composition of the provision for credit losses is as follows:

($ in millions)	**1999**	1998
Provision for losses on loans	**397**	313
Provision for claims on insurance	**133**	88
Provision for loan guarantees	**(7)**	32
Provision for Credit Losses	**$523**	$433

12. Loans Payable

The Corporation issues debt instruments in world capital markets. Short-term payables consist of commercial paper and other short-term debt related instruments that are issued by EDC with maturities under one year. Long-term payables represent bonds and other long-term instruments issued by the Corporation in Canadian dollars, U.S. dollars and other currencies. EDC utilizes currency swaps to convert foreign denominated fixed rate notes primarily to U.S. dollars. Interest rate swaps are principally utilized to convert fixed rate instruments to floating rates primarily related to LIBOR. EDC uses derivative contracts and structured notes to minimize the cost of capital and also for asset/liability management purposes.

Loans Payable

Loans payable are comprised as follows:

($ in millions)

	1999	1998
Short-term payables	**3,705**	4,072
Long-term payables		
– due within current year	**2,992**	2,269
– over one year	**9,531**	6,256
Total long-term payables	**12,523**	8,525
Sub-total	**16,228**	12,597
Plus: unamortized discounts and premiums	**5**	13
deferrals	**15**	26
Total Loans Payable	**$16,248**	$12,636

Unamortized discounts and premiums are associated with the issue of long-term debt and swaps. The amount of a discount or premium recorded represents the difference between the face value of an instrument and the actual cash flow at the time of settlement. Deferrals include gains incurred upon debt repurchases and swap unwinds. Such amounts are recorded as an asset or liability at the settlement date and amortized over the life of the instrument (in the case of discounts and premiums) or over the life of the replacement instrument (in the case of deferrals).

Accrued Interest

Accrued interest reflects corporate cash flow obligations and rights. Accrued interest is comprised of the following:

($ in millions)

	1999	1998
Short-term	**53**	31
Long-term	**644**	434
Total Accrued Interest Payable	**$697**	$465

Structured Notes

EDC has entered into a number of structured notes as part of its funding program. Structured notes are hybrid securities that combine fixed income products with derivative components.

Structured notes outstanding, included in loans payable, are as follows:

($ in millions)

	1999	1998
Equity index	**788**	621
Dual currency	**984**	1,600
Callable/extendible	**1,446**	654
Barrier	**240**	580
Other	**180**	424
Total	**$3,638**	$3,879

The Corporation has executed swap contracts to mitigate market risk on these structured borrowings. These contracts ensure that EDC will receive proceeds from the swap to meet the requirements of settling and servicing the debt obligation. The Corporation has in substance created floating rate debt by issuing bonds at fixed rates and entering into swap contracts whereby EDC receives fixed rate interest and pays interest at a floating rate. In swapping out of the underlying bond issue, the potential market risk has been converted to credit risk. Credit risk is managed by contracting with counterparties evaluated as creditworthy, based on treasury limits and policy guidelines as approved by the Board of Directors. Credit exposure on derivative financial instruments is further discussed in Note 16.

13. Debt Instrument Maturities

The following table shows how EDC has used derivative financial instruments to manage interest rate exposure on debt instruments:

($ in millions)

				1999		1998
Year of Maturity	**Issues**	**Swap Contracts**	**Net**	**Yield* (%)**	Net	Yield* (%)
Fixed Rate Issues						
1999	**–**	**–**	**–**	**–**	842	7.37
2000	**2,267**	**(1,978)**	**289**	**8.63**	306	8.63
2001	**793**	**(360)**	**433**	**6.25**	–	–
2002	**1,940**	**(1,074)**	**866**	**6.40**	153	7.75
2003	**1,073**	**(203)**	**870**	**6.81**	923	6.81
2004	**1,590**	**(1,590)**	**–**	**–**	–	–
2005 to 2009	**2,084**	**(2,084)**	**–**	**–**	–	–
2010 and beyond	**744**	**(487)**	**257**	**8.55**	272	8.55
Sub-total	**10,491**	**(7,776)**	**2,715**	**7.49**	2,496	7.71
Floating Rate Issues						
1999	**–**	**–**	**–**		5,474	
2000	**4,431**	**1,920**	**6,351**		1,416	
2001	**808**	**361**	**1,169**		792	
2002	**–**	**1,077**	**1,077**		575	
2003	**159**	**207**	**366**		219	
2004	**24**	**1,580**	**1,604**		90	
2005 to 2009	**226**	**1,999**	**2,225**		1,078	
2010 and beyond	**89**	**430**	**519**		394	
Sub-total	**5,737**	**7,574**	**13,311**	**5.63**	10,038	4.75
Total	**$16,228**	**$(202)**	**$16,026**		$12,534	

* *Refers to yield to maturity for fixed rate issues, and yield to reset for floating rate issues.*

Credit exposure and other details on swap contracts are included as part of Note 16.

14. Share Capital

The authorized share capital is $1.5 billion consisting of 15 million shares with a par value of $100 each. The number of shares issued and fully paid is 9.8 million (1998 – 9.8 million). No shares were issued in 1999 (1998 – nil).

15. Foreign Currency Balances

The Corporation has substantial assets and liabilities in U.S. dollars and in other currencies. In addition, EDC has derivative financial instruments denominated in various currencies. The purpose of these derivative financial instruments is to minimize the cost of capital and optimize yields for the Corporation, while remaining within treasury guidelines and limits approved by the Board of Directors.

The table below shows where EDC has used derivative financial instruments to manage the foreign currency exposures of its asset and liability positions. The resulting net foreign currency exposure as at December 31 (expressed in Canadian equivalent dollars) is as follows:

($ in millions)							1999		1998	
	Assets			Liabilities						
	Gross	D.F.I.*	Net	Gross	D.F.I.*	Net	Net Foreign Currency Exposure	Rate	Net Foreign Currency Exposure	Rate
U.S. Dollars	14,913	483	15,396	(8,561)	(6,852)	(15,413)	(17)	1.4433	3	1.5305
British Pounds	891	(11)	880	(760)	(118)	(878)	2	2.3314	30	2.5448
Euro	608	(15)	593	(1,125)	533	(592)	1	1.4525	N/A	N/A
Deutsche Marks**									31	0.9184
European Currency Units**									3	1.7959
Netherlands Guilder**									1	0.8155
Italian Lira**									(1)	0.0009
Australian Dollars	9	(9)	–	(95)	95	–	–	0.9482	–	0.9387
Swiss Francs	–	–	–	(24)	24	–	–	0.9064	–	1.1143
Hong Kong Dollars	–	–	–	(93)	93	–	–	0.1857	–	0.1976
Japanese Yen	38	(38)	–	(838)	838	–	–	0.0141	–	0.0136
Norwegian Krone	4	–	4	–	(4)	(4)	–	0.1801	–	0.2026
New Zealand Dollars	14	–	14	(189)	175	(14)	–	0.7547	–	0.8060
South African Rand	–	–	–	(39)	39	–	–	0.2347	–	0.2600

* *"Derivative Financial Instruments" includes currency swaps and foreign exchange contracts. See Note 16.*

** *As at January 1, 1999, these exposures were included as part of the Euro exposure.*

The Corporation incurred a foreign exchange loss of $11.9 million in 1999 (1998 – gain of $12.9 million). This amount is included in interest expense. Throughout the year, EDC carried net asset exposures primarily in U.S. dollars, British pounds and Euros. In 1999, the portion of the total foreign exchange loss attributable to U.S. dollars was $4 million (1998 – gain of $9.9 million) and to British pounds was $2.5 million (1998 – gain of $1.9 million) and to Euros was $5 million (1998 – n/a).

16. Derivative Financial Instruments

The Corporation actively manages its exposure to market risk through the use of derivative financial instruments. Treasury policy and guidelines limit the use of derivatives. EDC does not utilize derivatives for speculative purposes. EDC utilizes a variety of these instruments to manage funding costs, investment returns, and to implement asset/liability management strategies in order to minimize market risks in EDC's portfolios. The credit risk in these instruments is managed in accordance with guidelines established in the Treasury Risk Management Department and approved by the Board of Directors.

EDC currently uses, but is not limited to, the following types of instruments:

Interest rate swaps – transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed upon fixed or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged.

Currency swaps – transactions in which two parties exchange currencies at inception and at maturity, as well as interest flows on the exchanged amounts on predetermined dates for a specified period of time using agreed upon fixed or floating rates of interest.

Equity index swaps – transactions used to eliminate exposure to movements in an equity index on a debt issue undertaken by the Corporation. Two counterparties agree to exchange payments, one of which represents the percentage change in an agreed upon equity index and the other a short-term interest rate index. The principal may either resemble an interest rate swap, in that no exchange of notional amounts occurs, or a currency swap, in which currencies will be exchanged at both inception and maturity.

Foreign exchange contracts – commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

Forward rate agreements – short-term contracts between two counterparties locking in an interest rate for a specified period, notional amount and interest rate index, starting on a specified date in the future.

Futures – future commitments to purchase or deliver money market instruments on a specified future date at a specified price. The instruments are obligations between the Corporation and the organized exchange upon which the contract is traded.

Options – contracts, which grant the right, but not the obligation, to purchase a financial asset at a specified price during a specified period.

In any transaction there is a potential for loss. This loss potential is represented by (1) credit risks, wherein the counterparty fails to perform an obligation as agreed upon causing the other party to incur a financial loss, and (2) market risks, where an exposure exists as a result of changes in foreign exchange rates and or interest rates.

The Corporation manages its exposure to credit risk by contracting only with financial institutions having minimum original credit ratings of A for terms of three years and under, and AA for terms greater than three years. Internal policies and procedures establish credit approvals, controls and monitoring. The Corporation does not anticipate any significant non-performance by the counterparties.

The Corporation manages its exposure to market risk (interest rate and foreign exchange) utilizing limits developed in consultation with the Department of Finance and approved by the Audit Committee of the Board of Directors.

Credit impairment in the derivative financial instruments, marketable securities and investments has been estimated not to exceed $20 million. Accordingly, an allowance for credit risk of $20 million (1998 – $20 million) has been established. This amount is included in accounts payable.

Interest rate, currency swap and foreign exchange contracts entered into by the Corporation with contractual or notional principal amounts outstanding as at December 31 are listed below:

($ in millions)					**1999**	1998
	Remaining Term to Maturity					
	Under 1 Year	**1 to 3 Years**	**3 to 5 Years**	**Over 5 Years**	**Total**	Total
Currency swaps	**2,240**	**1,739**	**1,159**	**2,492**	**7,630**	4,630
Interest rate swaps	**688**	**1,646**	**635**	**155**	**3,124**	1,902
Foreign exchange contracts	**3,153**	**–**	**–**	**–**	**3,153**	1,662
Total derivative financial instruments	**$6,081**	**$3,385**	**$1,794**	**$2,647**	**$13,907**	$8,194
Fair Value of Derivative Financial Instruments						
Positive	**364**	**157**	**69**	**116**	**706**	589
Negative	**(90)**	**(25)**	**(63)**	**(76)**	**(254)**	(187)

Swaps that have a positive fair value are those contracts which, if settled immediately, would result in a gain. Conversely, immediate settlement of a swap with a negative fair value would result in a loss.

17. Fair Value of Financial Instruments

The following chart outlines the book values and the fair values of the Corporation's financial instruments. As with any estimate, uncertainty is inherent due to the unpredictability of future events. In the case of estimating the fair value of the Corporation's financial instruments, this uncertainty is multiplied due to the large number of assumptions used, and in the wide range of acceptable valuation techniques. Estimates of fair values are based on market conditions at a certain point in time, and may not be reflective of future market conditions. Thus, the estimates of the value of financial instruments outlined on the following page do not necessarily reflect the actual values that may occur should the instruments be exchanged in the market. It is not the Corporation's intent to settle these items in the market before they mature.

The aggregate of the estimates of the fair value of the financial instruments presented below does not reflect an estimate of the underlying value of the Corporation.

($ in millions)	**1999**		1998	
Balance Sheet Financial Instruments	**Book Value**	**Fair Value**	Book Value	Fair Value
Cash and marketable securities:				
Fixed rate securities	**495**	**495**	436	444
Floating rate securities	**2,756**	**2,756**	975	975
Investments	**168**	**155**	332	342
Loans receivable:				
Performing fixed rate	**6,912**	**7,362**	6.432	6.862
Performing floating rate	**8,138**	**9,475**	6.532	7.678
Impaired	**333**	**333**	467	467
Total	**$18,802**	**$20,576**	$15.174	$16,768
Accounts payable	**92**	**92**	133	133
Loans payable:				
Fixed rate	**11,188**	**11,274**	8.650	9.033
Floating rate	**5,737**	**5,737**	4,412	4.412
Total	**$17,017**	**$17,103**	$13.195	$13.578

Note: The book value of assets and liabilities shown above differs slightly from the balances on the financial statements due to the exclusion of items such as deferrals which do not have a fair value.

($ in millions)	**1999**	1998
Off-Balance Sheet Financial Instruments	**Fair Value**	Fair Value
Currency swap contracts	**351**	272
Interest rate swap contracts	**21**	124
Foreign exchange contracts	**80**	6
Undisbursed loan commitments:		
Fixed rate	**67**	175
Floating rate	**(68)**	(113)

The fair value of securities with an original maturity of more than one year is based on quoted market prices. For securities with an original maturity of less than one year, the face value has been used as an estimate of fair value.

In order to estimate the fair value of its performing loans receivable, the Corporation separates its loans into risk pools and calculates the net present value of cash flows of principal and interest. The discount rate for the fixed rate portfolio is derived by taking the base rate, U.S. Treasuries for U.S. dollar fixed rate cash flows, for example, to which a spread for credit risk is added for each credit pool. The discount rate for the floating rate portfolio is derived similarly by adding to the base rate a spread for credit risk depending on the grade of credit. The fair value of undisbursed loan commitments is estimated using the same methodology used in the performing loans receivable estimate.

The estimate of the fair value of fixed rate loans payable and investments uses a discounted cash flow approach with current market rates. Variable rate loans payable and investments reprice frequently and the carrying value approximates the fair value.

The nature of accounts payable is that they have a relatively short duration. Thus, the fair value of accounts payable is estimated to be equal to their book value.

The estimate of the fair value of the foreign exchange contracts is calculated using the current market spot and forward exchange rates at December 31. Currency swap contracts and interest rate swap contracts use a discounted cash flow approach. The discount rate used to estimate the fair value of the swap contracts is based on the current market swap rates at December 31 as issued by Telerate. These rates are used to calculate the present value of future interest payments and principal cash flows related to the swap contracts.

18. Related Party Transactions

The Corporation enters into transactions with other government departments, agencies and Crown corporations in the normal course of business.

When sovereign borrowers experience financial difficulties and are unable to meet their debt obligations, sovereign creditors, including the Government of Canada, agree at an international forum, the Paris Club, to formally reschedule the borrower's debt obligations. From time to time and on a case-by-case basis, the most heavily indebted sovereign borrowers are granted debt reduction or debt service relief. The granting of debt reduction or relief is contingent upon the sovereign borrower's ability to implement and maintain economic programs outlined by the International Monetary Fund. To date, the Government of Canada pays the Corporation an amount equal to the debt relief granted to the Corporation's sovereign borrowers by the Paris Club. Amounts received for debt relief arrangements on sovereign impaired loans are credited to the book value of the loans similar to the treatment accorded other receipts on impaired loans. To the extent that amounts received exceed the book value of the loans, interest income is recorded.

During 1999, the Corporation received from the Government of Canada $59 million (1998 – $97 million) for principal pursuant to debt relief arrangements.

In addition, the Corporation has loans receivable of $630 million and undisbursed commitments of $867 million, for which it has recourse to the Consolidated Revenue Fund of Canada in the event of a loan default.

The Corporation is in the process of withdrawing from the *Public Service Superannuation Act*, and establishing its own defined benefit pension plan, registered under the *Pension Benefits Standards Act*. It is expected that the withdrawal process and the establishment of a separate plan will be substantially completed during 2000 and will not materially impact the financial position of the Corporation.

19. Canada Account Transactions

Pursuant to the Act, the Minister for International Trade, with the concurrence of the Minister of Finance, may authorize the Corporation to undertake certain financial and contingent liability transactions. These transactions and legislative authorities which underlie them have come to be known collectively as the "Canada Account." The Board of Directors is only responsible for ensuring that the transactions made by the Corporation under the Canada Account are administered appropriately. Accounts for these transactions are maintained separately from the Corporation's accounts and are consolidated annually as at March 31 with the financial statements of the Government of Canada, which are reported upon separately by the Auditor General of Canada. The assets under the Canada Account, mainly loans receivable and accrued interest and fees recorded in accordance with the accounting policies and practices approved by the Government of Canada, amounted to $2,749 million at December 31, 1999 (1998 – $3,038 million).

The Act allows the Canada Account to have outstanding loans and commitments to foreign borrowers, and liabilities under contracts of insurance and other agreements up to a maximum of $13 billion. The position against this limit, determined in accordance with the requirements of the Act, is $5,133 million (1998 – $5,650 million). Reinsurance of $59 million has been deducted from the insurance policies in force.

The Corporation retained $25 million (1998 – $22 million) from Canada Account receipts and recoveries to meet expenses and overhead related to Canada Account transactions.

20. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect EDC, including those related to customers, suppliers, or other third parties, have been fully resolved.

21. Reclassification of Comparative Figures

Certain 1998 comparative figures have been reclassified to conform to the presentation adopted in 1999.

Farm
Credit
Corporation

FCC SCA
Farm Credit Corporation Societe du credit agricole
Canada

Management's Responsibility for Financial Statements

The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of the Corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for credit losses and the valuation of real estate acquired in settlement of loans, that are necessarily based on management's best estimates and judgement.

The financial statements have been prepared in accordance with accounting principles which are generally accepted in Canada. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, a committee which is composed of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis. Internal and external auditors have full and free access to the Audit Committee.

The Corporation's independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation and for issuing his report thereon.

John J. Ryan.

John J. Ryan
President and
Chief Executive Officer

Moyez Somani

Moyez Somani
Executive Vice-President and
Chief Financial Officer

Regina, Canada
May 12, 2000

AUDITOR GENERAL OF CANADA VÉRIFICATEUR GÉNÉRAL DU CANADA

Auditor's Report

To the Minister of Agriculture and Agri-Food:

I have audited the balance sheet of Farm Credit Corporation as at March 31, 2000 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Corporation Act* and the by-laws of the Corporation.

L. Denis Desautels.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
May 12, 2000

Balance Sheet

AS AT MARCH 31

	2000	1999
	(thousands of dollars)	
ASSETS		
Cash and short-term investments (Note 3)	$ 308,768	$ 245,797
Accounts receivable and other accrued assets	74,874	31,760
Long-term investments (Note 4)	55,557	102,713
Loans receivable (Notes 5 and 6)	6,054,099	5,629,202
Real estate acquired in settlement of loans (Note 7)	64,855	103,395
Equipment and leasehold improvements	12,554	12,194
	$ 6,570,707	$ 6,125,061
LIABILITIES		
Accounts payable and accrued liabilities	$ 23,349	$ 21,699
Accrued interest on borrowings	165,966	122,522
	189,315	144,221
Borrowings (Note 8)		
Short-term debt	1,040,139	1,120,318
Long-term debt	4,700,734	4,237,171
	5,740,873	5,357,489
Other liabilities and deferred fees (Note 9)	13,302	31,505
	5,943,490	5,533,215
EQUITY		
Capital (Note 1)	507,725	507,725
Retained earnings	119,492	84,121
	627,217	591,846
	$ 6,570,707	$ 6,125,061

The accompanying notes are an integral part of the financial statements.

Approved:

Donald W. Black
Chair, Board of Directors

Warren Ellis
Chair, Audit Committee

Statement of Operations and Retained Earnings

FOR THE YEARS ENDED MARCH 31

	2000	1999
	(thousands of dollars)	
INTEREST INCOME		
Loans receivable	$ 470,152	$ 442,331
Investment income	25,337	25,845
	495,489	468,176
Interest expense	341,072	321,923
Net interest income	154,417	146,253
Provision for credit losses (Note 6)	52,743	33,220
Net interest income after provision for credit losses	101,674	113,033
LEASE AND REAL ESTATE INCOME		
Lease and other revenue	29,785	23,013
Operating expenses	1,994	2,452
Interest expense	4,804	5,852
Net lease and real estate income	22,987	14,709
OTHER INCOME	6,415	7,176
INCOME BEFORE OTHER EXPENSES	131,076	134,918
OTHER EXPENSES		
Administration expenses	90,779	90,130
Income taxes (Note 10)	1,926	2,229
Other expenses	92,705	92,359
NET INCOME	38,371	42,559
Retained earnings, beginning of year	84,121	41,562
Dividend (Note 1)	(3,000)	–
RETAINED EARNINGS, END OF YEAR	$ 119,492	$ 84,121

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

FOR THE YEARS ENDED MARCH 31

	2000	1999
	(thousands of dollars)	
OPERATING ACTIVITIES		
Net income	$ **38,371**	$ 42,559
Items not involving cash		
Provision for credit losses	**52,743**	33,220
Change in accrued interest receivable	**(30,864)**	(10,948)
Change in accrued interest payable	**45,110**	18,938
Other	**15,387**	23,816
Cash provided by operating activities	**120,747**	107,585
INVESTING ACTIVITIES		
Long-term investments	**45,734**	44,948
Loans receivable disbursed	**(1,579,700)**	(1,509,900)
Loans receivable repaid	**1,095,652**	995,459
Change in real estate held	**38,540**	20,086
Other	**(16,032)**	(1,523)
Cash used in investing activities	**(415,806)**	(450,930)
FINANCING ACTIVITIES		
Long-term debt repaid to Canada	**(236,194)**	(436,250)
Long-term debt from capital markets	**1,109,989**	1,520,504
Long-term debt repaid to capital markets	**(431,349)**	(821,058)
Change in short-term debt	**(81,416)**	182,095
Dividend paid	**(3,000)**	–
Change in NISA investments held	–	(93,754)
Cash provided by financing activities	**358,030**	351,537
Increase in cash and short-term investments	**62,971**	8,192
Cash and short-term investments, beginning of year	**245,797**	237,605
Cash and short-term investments, end of year	$ **308,768**	$ 245,797

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

1. The Corporation

(a) Authority and objectives

Farm Credit Corporation (the Corporation) was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is an agent Crown Corporation named in Part I of Schedule III to the *Financial Administration Act*.

On April 2, 1993, the *Farm Credit Corporation Act* was proclaimed into law and replaced the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which were repealed. The Act continues the Farm Credit Corporation with its Corporate Office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

The Corporation's role is to enhance rural Canada by providing specialized and personalized financial services to family farms and those businesses in rural Canada that are related to farming. Additionally, the Corporation delivers specific programs for the Government of Canada on a cost-recovery basis.

(b) Capital

Capital of the Corporation consists of capital contributions made by the Government of Canada net of the March 31, 1998 reallocation to eliminate the Corporation's accumulated deficit.

As of March 31, 2000, capital payments received from the Government of Canada amounted to $1,168 million (1999 – $1,168 million). The statutory limit for that same period was $1,175 million (1999 – $1,175 million).

(c) Dividend

On May 26, 1999, the Corporation's Board of Directors declared a dividend in the amount of $3.0 million which was paid on September 30, 1999, to the Corporation's sole shareholder – the Government of Canada.

(d) Limits on borrowing

The *Farm Credit Corporation Act* restricts the total direct and contingent liabilities of the Corporation to 12 times its equity. This limit can be increased to 15 times the equity with the prior approval of the Governor in Council.

At March 31, 2000, the Corporation's total liabilities were 9.5 times the equity of $627.2 million (1999 – 9.3 times the equity of $591.9 million).

2. Significant accounting policies

(a) Investments

Investments comprise the balance sheet categories of short-term investments and long-term investments. Interest income, amortization of premiums and discounts and write-downs to market value on investments are reported as investment income. Except as noted below for long-term investments acquired to manage funding opportunities in advance of cash requirements, gains and losses on disposal of investments are also reported in investment income.

Short-term investments are acquired primarily for the purposes of liquidity and are intended to be held for less than one year. Short-term investments are carried at cost. However, where the market value has declined significantly, short-term investments are written down to market value.

Long-term investments are securities with terms to original maturity in excess of one year. These investments are acquired primarily for the purposes of asset/liability management and for the management of funding opportunities in advance of cash requirements.

Long-term investments which were acquired for asset/liability management are carried at cost adjusted for the amortization of premiums or discounts over the term to maturity. When there has been a decline in value that is other than temporary, the carrying value is appropriately reduced. Gains and losses on the disposal of these investments are included in income as a component of investment income.

Long-term investments which were acquired for the management of funding opportunities in advance of cash requirements act as hedges against changes in future borrowing rates. These investments are carried at cost adjusted for the amortization of premiums or discounts over the term to maturity. When there has been a decline in value that is other than temporary, the carrying value is appropriately reduced. To estimate the true cost of funding, gains and losses on the disposal of these investments are amortized on a straight-line basis and applied to interest expense over the lives of the related funding instruments.

(b) Loans receivable

Loans receivable is stated net of the allowance for credit losses.

Loans are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan where a payment is 90 days past due is classified as impaired unless the loan is well secured. When a loan is specifically classified as impaired, the carrying amount is reduced to its estimated realizable amount. Changes in the estimated realizable amount arising subsequent to initial impairment are reflected as an adjustment to the provision for credit losses.

Interest income is recorded on an accrual basis until such time as a loan is specifically classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to accrual status when all provisions for credit losses are reversed and, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

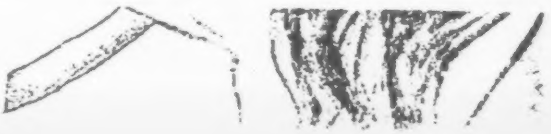
Loan fees received as compensation for the alteration of lending agreements are considered an integral part of the yield earned on the loans. Such loan fees are amortized to interest income over the average remaining term of the loans.

(c) Allowance for credit losses

The allowance for credit losses represents management's best estimate of credit losses on its loans receivable in light of current conditions. It has a specific and a general component.

Based on a loan-by-loan review, the specific component is established to value impaired loans at the lower of their recorded investment or the estimated realizable amount of their underlying security. Estimated realizable amounts are determined as the fair value of the underlying security of the loans, taking into account the estimated time and costs required to realize the security.

The general component, which is prudential in nature, is established in respect of loans for which impairment has not been specifically identified. In establishing the general component of the allowance, management models historic portfolio migration trends and loss percentages and applies them to the year-end loans receivable balances categorized into risk pools. As a single industry lender, the Corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting agricultural regions and sectors. Accordingly, management also considers the impact of specific factors, such as land value trends, economic trends, federal and provincial government programs, commodity prices and climatic conditions. Evidence of potential impairment can exist as early as the time of disbursement.



The allowance is increased by provisions for credit losses and reduced by write-downs on real estate acquisitions and loan write-offs net of recoveries.

The allowance for credit losses is an accounting estimate based on historic experience and an assessment of current conditions. Events may occur that render the underlying assumptions invalid and thus cause actual credit losses to vary significantly from management's estimate.

(d) Real estate acquired in settlement of loans

Real estate, whether held for the production of income through leasing or held for sale, is initially recorded at the lower of the recorded investment in the foreclosed loan and the fair value of the underlying security at the time of acquisition. The fair value of the security is the amount which could be realized in an arm's-length disposition considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower.

Subsequent to acquisition, real estate leased for the production of income is carried at the value recorded on acquisition and is not written down for declines in the estimated fair value unless they are significant and permanent.

The carrying value of real estate held for sale is adjusted to reflect significant decreases in the estimated fair value subsequent to acquisition.

Lease and other revenues from real estate are recorded when earned. Recoveries arising from the disposal of real estate are recognized when title to the property passes to the purchaser. These recoveries are included as a component of lease and other revenue.

(e) Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the equipment and leasehold improvements using the following methods and terms:

	Methods	Terms
Office equipment and furniture	Declining balance	20% per annum
Computer equipment and software	Straight-line	3 years
Leasehold improvements	Straight-line	Lease term

(f) Translation of foreign currencies

Loans receivable/borrowings and interest receivable/payable in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date. Interest income and expense denominated in foreign currencies are translated into Canadian dollars at the average month-end exchange rates prevailing throughout the year. Exchange gains or losses arising from the translation of foreign denominated debt and interest expense are reported net of the exchange gains and losses on the related currency exchange agreements and are included as a component of interest expense.

(g) Long-term debt

The difference between the ultimate amounts payable (at the initial exchange rates if the long-term debt is denominated in foreign currency) and the cash proceeds of debt issues are amortized on a straight-line basis and applied to interest expense over the lives of the obligations.

Interest settlement amounts for debt with bond index-linked or equity index-linked interest are estimated using the related index level as at the balance sheet date and included in accrued interest. Changes in the estimated settlement amounts during the year are included as a component of interest expense.

(h) Derivative financial instruments

In order to manage its exposure to currency and interest rate risks, the Corporation uses various types of derivative financial instruments such as currency, interest rate, bond index-linked and equity index-linked swaps, forward rate agreements and interest rate options. These instruments include contracts designated as hedges as well as asset/liability contracts which alter the Corporation's overall interest rate profile. The Corporation does not use derivative financial instruments for speculative purposes.

Currency exchange agreements

Amounts receivable or payable under currency exchange agreements are disclosed separately from the related foreign currency denominated loans receivable or debt and are translated into Canadian dollars at rates prevailing on the balance sheet date. The translated amounts are disclosed net of any amounts payable or receivable in Canadian dollars under these contracts. The net balance is reported as a component of accounts receivable and other accrued assets or other liabilities and deferred fees.

Currency exchange gains and losses arising from currency exchange agreements are included in income as a component of interest expense. The cost of these agreements is amortized on a straight-line basis over the life of the contract and the amortization is reflected in interest income or expense. The unamortized balance is included as a component of accounts receivable and other accrued assets or other liabilities and deferred fees.

Interest rate agreements

Periodic payments arising under swap and forward contracts are accounted for on an accrual basis with the accrued interest receivable and payable recorded as a component of accounts receivable and other accrued assets and accounts payable and accrued liabilities respectively.

A premium is paid to purchase an option contract. If the option is exercised, the premium is amortized on a straight-line basis over the life of the underlying instrument and reported as an adjustment to interest expense. If not exercised, the premium is recognized at the time the contract expires and reported as an adjustment to interest expense. Gains realized upon exercising an interest rate option are deferred and amortized to interest expense over the life of the hedged position.

(i) Pension and other post-retirement employee benefits

Employees participate in the *Public Service Superannuation Act* pension plan administered by the Government of Canada. The Corporation matches employee contributions for current or past service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the Corporation.

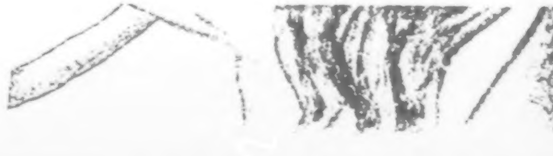
Upon retirement, employees under the age of 65 are entitled to basic life insurance coverage. The Corporation recognizes the premium costs as incurred.

(j) Employee termination benefits

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The liability for these benefits is recorded as the benefits accrue to the employees or as settlements are reasonably determinable.

(k) Income taxes

The Corporation follows the tax allocation method of providing for income taxes. The cumulative differences between tax calculated on such a basis and taxes currently payable are essentially timing differences and result in deferred income taxes. The Corporation has deferred income tax benefits which have not been recorded and will only be recognized when realized.



3. Cash and short-term investments

	Effective interest rate (%)		2000		1999
			(thousands of dollars)		
Cash		$	**19,375**	$	2,606
Short-term investments	5.05 – 5.40		**287,739**		241,562
Accrued interest			**1,654**		1,629
		$	**308,768**	$	245,797

Short-term investments consist of instruments with maturities of less than one year, issued by:				
The Government of Canada, its agencies and Crowns	$	**47,890**	$	54,697
Other		**239,849**		186,865
	$	**287,739**	$	241,562

Other investments consist of short-term instruments issued by the governments of the provinces of Canada and short-term instruments issued by institutions with credit ratings of R-1L or higher. As at March 31, 2000, the largest total investment in any one institution was $43.6 million (1999 – $37.2 million).

4. Long-term investments

	Effective interest rate (%)		2000		1999
			(thousands of dollars)		
Amounts due within:					
1 – 5 years	4.79	$	**50,000**	$	94,215
Unamortized premium and discount			**4,314**		7,029
Accrued interest			**1,243**		1,469
		$	**55,557**	$	102,713

Long-term investments consist entirely of Government of Canada bonds.

5. Loans receivable

	Stated interest rate (%)	2000	1999
		[illegible]sands of dollars)	
Principal amounts due, secured by:			
– mortgages	5.00 – 12.50	$ 5,306,707	$ 4,967,502
– chattels	5.00 – 12.50	721,415	629,519
– notes	5.00 – 12.50	25,087	29,424
		6,053,209	5,626,445
Accrued interest and fees, net of payments held		82,156	86,771
		6,135,365	5,713,216
Recorded investment in impaired loans, secured by:			
– mortgages		156,170	119,743
– chattels		11,377	9,279
– notes		902	1,128
		168,449	130,150
Total loans receivable		6,303,814	5,843,366
Less: Allowance for credit losses (Note 6)		(249,715)	(214,164)
		$ 6,054,099	$ 5,629,202
Principal amounts (excluding impaired loans) due within:			
1 year		$ 1,390,237	$ 1,234,532
1 – 5 years		4,038,768	3,814,871
over 5 years		624,204	577,042
		$ 6,053,209	$ 5,626,445

Management estimates that annually, over the next three years, approximately 8.0% (1999 – approximately 8.0%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2000, $2.4 million (1999 – $2.5 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully swapped into Canadian dollars.

6. Allowance for credit losses

		2000		1999
		(thousands of dollars)		
Balance, beginning of year	$	214,164	$	182,700
Write-offs, net of recoveries		(17,192)		(1,756)
Provision for credit losses		52,743		33,220
Balance, end of year	$	249,715	$	214,164
Specific allowance	$	52,215	$	42,164
General allowance		197,500		172,000
Balance, end of year	$	249,715	$	214,164

As at March 31, 2000, the total recorded investment in loans receivable against which a specific allowance has been identified was $168.4 million (1999 – $130.2 million). The general allowance was established against the remaining $6,135.4 million (1999 – $5,713.2 million) investment in loans receivable.

7. Real estate acquired in settlement of loans

		2000		1999
		(thousands of dollars)		
Balance, beginning of year	$	103,395	$	123,481
Acquisitions		2,253		622
Disposals		(40,793)		(20,708)
Balance, end of year	$	64,855	$	103,395
Real estate under long-term lease, maturing:				
within 1 year	$	32,115	$	59,074
from 1 – 2 years		2,863		37,530
from 2 – 3 years		1,107		1,882
from 3 – 4 years		–		792
		36,085		99,278
Real estate held for sale		28,770		4,117
	$	64,855	$	103,395

Real estate represents property acquired in the process of administering loans receivable.

Real estate under long-term lease may be subject to renewal at the expiry of the original lease term. Leases re-price annually.

Included in real estate held for sale is property which, as of March 31, 2000, has been sold on a conditional basis. This property has a recorded value of $17.0 million (1999 – $6.1 million).

		2000		1999
		(thousands of dollars)		
Future expected lease receipts, using current lease rates, due within:				
1 year	$	1,904	$	6,861
1 – 5 years		303		2,250
	$	2,207	$	9,111

8. Borrowings

The Corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are direct obligations of the Corporation and thus constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

(a) Short-term debt

Short-term debt consists of promissory notes payable within one year totaling $1,040.1 million (1999 – $1,120.3 million). The effective interest rate on these notes ranges from 4.91% to 5.54% (1999 – 4.71% to 5.20%). Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date.

On December 17, 1999, the Corporation entered into a line of credit agreement with a consortium of Canadian chartered banks allowing it access to funds in the amount of $300 million dollars on a revolving basis. Indebtedness under the credit agreement is unsecured. The credit facility matures on December 14, 2000, but is extendable annually at the option of the Corporation. At March 31, 2000, no amounts were outstanding under this agreement.

(b) Long-term debt

	Stated interest rate (%)	2000	1999
		(thousands of dollars)	
Loans from Canada, secured by notes	6.76 – 9.91	$ **804,604**	$ 1,040,798
Loans from capital markets, secured by notes payable in:			
Canadian dollars	nil – 9.00	**3,740,130**	2,959,869
New Zealand dollars ($100,000,000)		**–**	80,504
Loans from capital markets, secured by notes payable in Canadian dollars with interest payments linked to:			
the Hong Kong Exchange Index	–	**12,000**	12,000
the Euro Top 100 Index	–	**56,000**	56,000
the S&P 500 Composite Stock Price Index	–	**38,000**	38,000
the DS Barra Government Bond Index	–	**50,000**	50,000
		$ **4,700,734**	$ 4,237,171

Loans with index-linked interest payments do not provide periodic interest payments but, upon maturity, provide the purchaser with a single payment based on the change in the underlying equity or bond index. The Corporation has entered into swap agreements which offset all index-linked interest payments in exchange for periodic payments calculated at an agreed upon interest rate.

Loan payments denominated in foreign currencies have been fully swapped into Canadian dollars.

Long-term debt maturities are as follows:

	2000	1999
	(thousands of dollars)	
Amounts due:		
within 1 year	$ 1,279,186	$ 921,297
from 1 – 2 years	1,060,127	1,019,582
from 2 – 3 years	779,771	594,673
from 3 – 4 years	631,052	652,254
from 4 – 5 years	421,036	479,511
over 5 years	529,562	569,854
	$ 4,700,734	$ 4,237,171

Included in long-term debt is $391.2 million (1999 – $391.2 million) of loans extendable beyond their original due dates at the Corporation's option.

9. Other liabilities and deferred fees

	2000	1999
	(thousands of dollars)	
Other liabilities and deferred fees consist of:		
Agri-Land investment fund	$ 329	$ 1,960
Downpayments on real estate sales	4,577	1,281
Provision for employee termination benefits	3,990	6,01[illegible]
Obligation under capital lease	–	827
Net currency swap payable	165	14,757
Deferred loan fees	4,241	6,670
	$ 13,302	$ 31,505

The Corporation may, through its equity-building lease program, lease real estate acquired in settlement of loans back to the former owner (the lessee). In addition to lease payments, the lessee accumulates funds over the term of the lease by making additional payments to the Agri-Land investment fund. Funds held in the Agri-Land investment fund earn interest at 4.00% per cent (1999 – 4.00%). At the discretion of the lessee, these additional payments may then be applied against the purchase of real estate from the Corporation.

10. Income taxes

As at March 31, 2000, timing differences of approximately $206.0 million are available to the Corporation as deductions against future tax liabilities (1999 - $232.0 million). These have not been recognized in the financial statements. They result primarily from differences between the provision for credit losses charged to operations and the amount claimed for income tax purposes.

In addition, the loss carry-forward for income tax purposes, which has not been recognized in the financial statements, amounts to $277.0 million (1999 - $277.0 million) and expires on the dates indicated:

	(thousands of dollars)
March 31, 2001	$ 111,000
March 31, 2003	70,000
March 31, 2005	96,000
	$ 277,000

Income taxes payable by the Corporation represent corporate income taxes under Part I and capital taxes under Part I.3 of the *Income Tax Act*. Part I.3 tax is applicable to corporations with taxable capital in excess of $10 million and has been reduced by current Part I surtaxes payable.

With the withdrawal from the NISA program in 1999, the Corporation is no longer subject to Part VI tax. Amounts previously paid under the provisions of Part VI tax have been applied against current year Part I taxes payable.

11. Commitments and contingent liabilities

(a) Long-term commitments for leases

Future minimum payments by fiscal year on operating leases for premises, automobiles and computer equipment, with initial non-cancellable lease terms in excess of one year, are due as follows:

	(thousands of dollars)
within 1 year	$ 6,903
from 1 – 2 years	5,350
from 2 – 3 years	2,980
from 3 – 4 years	1,758
from 4 – 5 years	1,060
over 5 years	952
	$ 19,003

(b) Other commitments and contingent liabilities

In the normal course of its business, the Corporation enters into various commitments and contracts. As of March 31, 2000, the Corporation has issued guarantees and letters of credit on behalf of its customers which in total do not exceed $1.6 million (1999 – $1.1 million). In the event of a call upon the guarantees disclosed above, the Corporation has recourse against its customers.

As at March 31, 2000, loans to farmers and agribusiness approved but undisbursed amounted to $138.1 million (1999 – $185.6 million). These loans were approved at an average interest rate of 8.79% (1999 – 7.68%) and do not form part of the loans receivable balance until disbursed. It is expected that the majority of these loans will be disbursed by May 31, 2000.

12. Uncertainty due to the Year 2000 issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize a date using "00" as the year 1900 or some other date, rather than the year 2000. This could result in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date.

Although the change in date has occurred, it is not possible to be certain that all aspects of this issue, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved and that the problems will not adversely affect the Corporation. In addition, the failure of the Corporation's borrowers to fully address the Year 2000 issue may result in increases in impaired loans and provisions for credit losses in future years.

13. Derivative financial instruments

The Corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations, for investment management purposes, and to reduce funding costs. Interest rate and currency swaps are used to manage interest rate risk and to offset foreign currency risk on foreign currency borrowings. Interest rate options are purchased to hedge options embedded in the Corporation's loan products as well as to reduce the risk arising from loan rate guarantees.

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligation to the Corporation. Replacement cost represents the mark to market value of outstanding derivative contracts. A positive replacement cost indicates the Corporation's exposure to counterparty credit risk. The Corporation manages its exposure to credit risk and complies with the guidelines issued by the Minister of Finance by dealing exclusively with financial institutions whose credit rating is of high quality (Aa3 from Moody's or AA- from S&P or better). Additionally, International Swaps and Derivatives Association, Inc. (ISDA) documents have downgrade and collateral provisions to reduce counterparty credit risk. As a result, the Corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 2000, was $425.1 million (1999 – $493.4 million) and the largest replacement cost of contracts with any institution as at March 31, 2000, was $9.2 million (1999 – $3.2 million).

The remaining terms to maturity of the contractual (notional) Canadian dollar principal amounts of derivative financial instruments outstanding as at March 31, 2000, were as follows:

2000 – Remaining term to maturity		Within 1 year	1 to 5 years	Over 5 years	Total	Replacement cost
				(thousands of dollars)		
Interest rate contracts:						
Swap contracts						
Receive	**Pay**					
Floating	Fixed	$ 90,000	$ 209,000	$ 7,900	$ 306,900	$ (3,706)
Fixed	Floating	322,200	176,000	80,000	578,200	(4,135)
Fixed	Fixed	20,000	40,000	–	60,000	4,194
Floating	Floating	–	–	857	857	20
Equity index-linked	Floating	–	49,000	19,000	68,000	12,343
Equity index-linked	Fixed	38,000	–	–	38,000	(1,822)
Bond index-linked	Floating	50,000	–	–	50,000	(1,709)
Forward rate agreements		–	–	–	–	–
Purchased options		10,000	–	–	10,000	51
		530,200	474,000	107,757	1,111,957	5,236
Foreign exchange contracts:						
Cross-currency swaps						
Receive	**Pay**					
CDN fixed	USD fixed	51,000	5,000	–	56,000	(674)
CDN fixed	USD floating	–	2,250	–	2,250	(61)
CDN fixed	GBP fixed	29,860	–	–	29,860	36
NZD fixed	CDN fixed	–	–	–	–	–
		80,860	7,250	–	88,110	(699)
Total		$ 611,060	$ 481,250	$ 107,757	$ 1,200,067	$ 4,537

1999 – Remaining term to maturity		Within 1 year	1 to 5 years	Over 5 years	Total	Replacement cost
				(thousands of dollars)		
Interest rate contracts:						
Swap contracts						
Receive	*Pay*					
Floating	Fixed	$ 111,200	$ 284,000	$ –	$ 395,200	$ (11,405)
Fixed	Floating	236,200	212,000	–	448,200	3,470
Fixed	Fixed	45,000	40,000	–	85,000	3,294
Floating	Floating	–	–	857	857	35
Equity index-linked	Floating	–	49,000	19,000	68,000	592
Equity index-linked	Fixed	–	38,000	–	38,000	(3,247)
Bond index-linked	Floating	–	50,000	–	50,000	(321)
Forward rate agreements		150,000	–	–	150,000	(5)
Purchased options		170,000	10,000	–	180,000	528
		712,400	683,000	19,857	1,415,257	(7,059)
Foreign exchange contracts:						
Cross-currency swaps						
Receive	*Pay*					
CDN fixed	USD fixed	–	5,000	–	5,000	(161)
CDN fixed	USD floating	–	2,250	–	2,250	(13)
CDN fixed	GBP fixed	–	–	–	–	[illegible]
NZD fixed	CDN fixed	95,000	–	–	95,000	(10,529)
		95,000	7,250	–	102,250	(10,703)
Total		$ 807,400	$ 690,250	$ 19,857	$ 1,517,507	$ (17,762)

Included in derivative financial instruments is $391.2 million (1999 – 391.2 million) of interest rate swap and option contracts extendable beyond their original due dates.

Federal Bridge Corporation Limited, The

The accompanying consolidated financial statements of The Federal Bridge Corporation Limited and all information in this Annual Report are the responsibility of management.

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include some estimates which are based on management's best judgment. Information contained elsewhere in the Annual Report is consistent, where applicable, with that contained in the consolidated financial statements.

To meet management's responsibility and to ensure the integrity and reliability of financial reporting, the Corporation maintains a system of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded, and that transactions and events are properly recorded.

The system of controls is supplemented by an audit, which consists of periodic reviews of different aspects of the Corporation's operations. The external auditor has full and free access to the directors, who oversee management's responsibility for maintaining adequate control systems and the quality of financial reporting.

The Auditor General of Canada is responsible for auditing the consolidated financial statements and for issuing his report thereon.

Michel Fournier
President and Chief Executive Officer
Ottawa, Canada
May 26, 2000

AUDITOR GENERAL OF CANADA
VERIFICATEUR GENERAL DU CANADA

AUDITOR'S REPORT

To the Minister of Transport

I have audited the consolidated balance sheet of The Federal Bridge Corporation Limited as at March 31, 2000 and the consolidated statements of operations and retained earnings (deficit), contributed capital and cash flows for the year then ended. These financial statements are the responsability of the Coporation's management. My responsability is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the ***Financial Administration Act***, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the ***Financial Administration Act and regulations***, the ***Canada Business Corporations Act***, the ***Canada Marine Act and regulations***, and the articles and bylaws of the Corporation.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 26, 2000

Consolidated Balance Sheet
March 31, 2000

	2000	1999
	$	$
ASSETS		
Current		
Cash and term deposits	9,758,426	9,798,764
Accounts receivable	2,246,100	1,364,486
Accrued interest receivable	3,470	120,680
Due from Canada	3,990,252	3,660,005
	15,998,248	14,943,935
Long-term		
Investments	2,500,000	2,500,000
Advance to co-venturer (Note 3)	343,127	508,393
	2,843,127	3,008,393
Capital assets (Note 4)	37,336,799	34,828,458
	56,178,174	52,780,786
LIABILITIES		
Current		
Accounts payable	4,775,112	3,712,657
Deferred revenue	214,336	307,908
	4,989,448	4,020,565
Provision for employee termination benefits	812,372	578,377
Deferred capital funding (Note 5)	453,802	274,324
	1,266,174	852,701
	6,255,622	4,873,266
Commitments and contingencies (Notes 11 and 12)		
SHAREHOLDER'S EQUITY		
Capital stock		
Authorized		
Unlimited number of shares, without par value		
Issued and fully paid		
1 share	1	1
Contributed capital	50,041,592	47,641,592
Retained earnings (deficit)	(119,041)	265,927
	49,922,552	47,907,520
	56,178,174	52,780,786

The notes are an integral part of the consolidated financial statements.

Approved by the Board of Directors

President & Chief Executive Officer

Director

The Federal Bridge Corporation Limited
Consolidated Statement of Operations and Retained Earnings (Deficit)
Year ended March 31, 2000

	2000 (12 months)	1999 (6 months)
	$	$
Revenues		
Thousand Islands Bridge operating revenue (share) (Note 6)	**2,252,169**	905,738
Leases and licenses	**2,109,899**	727,772
Tolls	**1,549,407**	627,071
Interest	**652,711**	339,499
Other	**195,422**	112,621
	6,759,608	2,712,701
Expenses		
Maintenance	**21,825,261**	7,345,571
Operation	**3,565,656**	1,975,136
Administration	**4,564,106**	1,799,421
Amortization	**2,740,273**	1,259,627
Cost recovery (Note 7)	**(295,166)**	(267,745)
	32,400,130	12,112,010
Loss before government financing	**(25,640,522)**	(9,399,309)
Parliamentary appropriation for operating expenses	**25,167,928**	9,628,543
Amortization of deferred capital funding (Note 5)	**87,626**	36,693
Net income (loss)	**(384,968)**	265,927
Retained earnings, beginning of period	**265,927**	–
Retained earnings (deficit), end of period	**(119,041)**	265,927

The notes are an integral part of the consolidated financial statements.

Consolidated Statement of Contributed Capital

Year ended March 31, 2000

	2000 (12 months) $	1999 (6 months) $
Balance, beginning of period	**47,641,592**	–
Transfer of the assets of		
St. Lawrence Seaway Authority	–	36,982,982
The Jacques Cartier and Champlain Bridges Inc.	–	10,658,610
Transport Canada (Note 8)	**2,400,000**	–
Balance, end of period	**50,041,592**	47,641,592

The notes are an integral part of the consolidated financial statements.

The Federal Bridge Corporation Limited
Consolidated Statement of Cash Flows
Year ended March 31, 2000

	2000 (12 months) $	1999 (6 months) $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	**(384,968)**	265,927
Non-cash items		
Amortization of capital assets	**2,740,273**	1,259,627
Amortization of deferred capital funding	**(87,626)**	(36,693)
Increase in provision for employee termination benefits	**233,995**	20,875
Changes in working capital items (Note 9)	**(125,768)**	1,076,268
Cash flows from operating activities	**2,375,906**	2,586,004
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Increase in investments	**–**	4,500,000
Decrease (increase) in advance to co-venturer	**165,266**	(67,808)
Acquisition of capital assets	**(2,877,265)**	(144,060)
Disposal of capital assets	**28,651**	–
Cash flows from investment activities	**(2,683,348)**	4,288,132
CASH FLOWS FROM FINANCING ACTIVITIES		
Contribution in the form of cash and short-term deposits	**–**	2,846,565
Increase in deferred capital funding	**267,104**	78,062
Capital stock	**–**	1
Cash flows from financing activities	**267,104**	2,924,628
Net increase (decrease) for the period	**(40,338)**	9,798,764
Cash and deposits, beginning of period	**9,798,764**	–
Cash and deposits, end of period	**9,758,426**	9,798,764

The notes are an integral part of the consolidated financial statements.

1 - AUTHORITY AND ACTIVITIES

The Federal Bridge Corporation Limited, incorporated on September 2, 1998 under the ***Canada Business Corporations Act***, is a Crown corporation under Schedule III Part I of the ***Financial Administration Act*** and is not subject to the provisions of the ***Income Tax Act***.

In accordance with a directive issued by the Minister of Transport under the ***Canada Marine Act***, the St. Lawrence Seaway Authority transferred its assets on October 1, 1998. Specifically, the responsibility for the Jacques Cartier and Champlain Bridges Incorporated, for the Seaway International Bridge Corporation, Ltd., and for the operations of the Thousand Islands Bridge were transferred to The Federal Bridge Corporation Limited. The responsibility for the Melocheville Tunnel and the Mercier Bridge were transferred to the subsidiary, the Jacques Cartier and Champlain Bridges Incorporated.

The Corporation's primary activities involve the management and operation of bridges, installations and other assets. Moreover, the Corporation may acquire land and build structures or other assets and acquire shares or interests in any other bridge management corporation.

The subsidiary, The Jacques Cartier and Champlain Bridges Incorporated, depends on the federal government for its funding. The Federal Bridge Corporation Limited. and its joint venture, The Seaway International Bridge Corporation Ltd., are self-financed by using their own operating income.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) **Basis of consolidation**

The consolidated financial statements include the accounts of The Federal Bridge Corporation Limited, its wholly-owned subsidiary, The Jacques Cartier and Champlain Bridges Incorporated, and its proportionate share (50%) of its interest in its joint venture, The Seaway International Bridge Corporation Ltd. The consolidated operations include the results of the subsidiary and those of the joint venture for the period from April 1, 1999 to March 31, 2000 (from October 1, 1998 to March 31, 1999 for the year ended March 31, 1999).

(b) **Parliamentary appropriations**

The parliamentary appropriations, which the subsidiary uses to offset the excess of its operating expenses over its operating revenues, is shown on the statement of operations and retained earnings (deficit). In this regard, the excess of operating expenses over operating revenues of the subsidiary do not include amortization, the change in the provision for employee termination benefits and the gain or loss on the disposal of capital assets.

The portion of the parliamentary appropriations, which is used by the subsidiary to finance the acquisition of depreciable capital assets, is accounted for as deferred capital funding on the balance sheet and amortized on the same basis as the related capital assets. The portion used to finance the acquisition of non-amortizable capital assets is recorded as contributed capital.

Any portion of the parliamentary appropriations that the subsidiary is entitled to but which are not received by year-end is shown as an amount due from Canada.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Capital assets and amortization

Capital assets are recorded at cost. Replacements and major improvements which extend the useful service lives of existing assets are capitalized. Repairs and maintenance are charged to operations as incurred.

Capital assets acquired from Government of Canada created departments, agencies and Crown corporations are accounted for at the transferor's carrying amount with the consideration shown in contributed capital.

Amortization is recorded using the straight-line method based on the estimated useful service lives of the assets and the following rates:

Bridges	2% - 5%
Remedial work	5% - 10%
Deferred major repairs	10%
Vehicles and equipment	10% - 20%
Buildings	2% - 10%

(d) Deferred revenue

Deferred revenue is comprised of leases, licenses and the sale of toll tickets, for which services have not been rendered, are deferred and accounted for as services are provided.

(e) Employee termination benefits

The cost of these benefits is expensed in the period during which the services granting entitlement to the benefits are rendered by employees.

(f) Pension plan

All employees of the subsidiary and the joint venture are covered by the Public Service Superannuation Plan administered by the Government of Canada. The contributions of these entities to the plan are limited to an amount equal to the employees' contributions. The entities are not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

The Federal Bridge Corporation Limited employees are covered by a defined contribution private pension plan and the cost of this plan is shared equally by the employees and the Corporation.

Pension plan contributions are recorded in the period in which they are incurred.

3 - ADVANCE TO CO-VENTURER

This account represents the excess of the contribution required by The Federal Bridge Corporation Limited in its joint venture.

The advance bears interest at the average one-year Treasury bill rate and has no repayment terms. As at March 31, 2000, its carrying amount approximated its fair value.

4 - CAPITAL ASSETS

	2000			1999
	Cost	Accumulated amortization	Net	Net
	$	$	$	$
Land	3,769,987	–	3,769,987	3,769,987
Bridges	136,355,667	107,044,824	29,310,843	29,067,451
Vehicles and equipment	4,714,506	1,720,966	2,993,540	953,838
Buildings	2,537,625	1,652,674	884,951	556,823
Deferred major repairs	943,207	593,442	349,765	451,249
Remedial works	48,917	21,204	27,713	29,110
	148,369,909	111,033,110	37,336,799	34,828,458

The cost of the section of the Bonaventure Autoroute and the initial cost of the Jacques Cartier Bridge are fully amortized.

5 - DEFERRED CAPITAL FUNDING

	2000	1999
	$	$
Balance, beginning of period	274,324	232,955
Parliamentary appropriations to finance the acquisition of amortizable capital assets	267,104	78,062
Amortization	(87,626)	(36,693)
Balance, end of period	453,802	274,324

6 - THOUSAND ISLANDS BRIDGE'S OPERATING INCOME (SHARE)

This share represents the net income from operations of the Canadian portion of the Thousand Islands Bridge in accordance with a management agreement between The Federal Bridge Corporation Limited and the Thousand Islands Bridge Authority.

7 - COST RECOVERY

This recovery represents the repayment by Public Works and Government Services Canada of costs incurred as maintenance expenses for the Canadian Customs station of the Thousand Islands Bridge in accordance with a contractual agreement.

8 - CONTRIBUTED CAPITAL AND ACQUISITION OF ASSETS

Transport Canada transferred the Champlain Bridge Ice Control Structure to the subsidiary, The Jacques Cartier and Champlain Bridges Incorporated, on December 2, 1999. The related amount of $2,400,000 was recorded under contributed capital.

The net carrying amount of the capital asset transferred is as follows:

	$
Cost	18,000,000
Accumulated depreciation	15,600,000
Net carrying amount	2,400,000

9 - INFORMATION INCLUDED IN THE STATEMENT OF CASH FLOWS

The changes in working capital items are detailed as follows:

	2000 (12 months)	1999 (6 months)
	$	$
Accounts receivable	(881,614)	363,594
Accrued interest receivable	117,210	(62,111)
Due from Canada	(330,247)	1,640,472
Accounts payable	1,062,455	(961,019)
Deferred revenue	(93,572)	95,332
	(125,768)	1,076,268

10 - RELATED PARTY TRANSACTIONS

In addition to those related party transactions disclosed elsewhere in these financial statements, the Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

11 - COMMITMENTS

The Corporation has entered into agreements, principally supply, professional services and lease agreements, which call for payments of $5,668,706 until 2007. Minimum payments for the next five years are $2,488,667 in 2001, $1,078,422 in 2002, $902,621 in 2003, $370,964 in 2004, $371,527 in 2005 and $456,505 for subsequent years. The Corporation is also committed to pay annually a minimum amount of $2.9 million pursuant to an agreement for police services which expires on June 30, 2002.

12 - CONTINGENCIES

(a) Claims have been filed or lawsuits instituted against the Corporation, some of which are claiming significant monetary damages which could result in major expenses. These matters are subject to considerable uncertainty and the outcome of each case cannot be predicted. An allowance for each expense has been established based on management's best estimate. It is possible that the Corporation may have to settle some of these claims for amounts that exceed the allowances currently established.

(b) It may be necessary to decontaminate some of the Corporation's properties. To date, the Corporation has been unable to determine the related costs as it has not assessed the extent of contamination on all of its properties. The costs for environmental assessments and decontamination work are accounted for in the year during which the work is performed.

13 - MAJOR REHABILITATION WORK

As part of its mission, the Corporation is required to undertake major rehabilitation work on the deck of the Jacques Cartier Bridge. The Corporation has obtained approval from the Treasury Board to solicit bids for a three-year design-construction project to replace the deck of the Jacques Cartier Bridge. Construction work on the bridge is expected to start in April 2001 and end in November 2002. The entire project cost, including direct and indirect costs, is estimated at $120 million dollars.

14 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash, term deposits, accounts receivable, amount due from Canada and accounts payable approximates their fair value given their short-term maturity. There is no concentration of accounts receivable and accordingly, the credit risk is low.

15 - COMPARATIVE FIGURES

Certain of the 1999 comparative figures have been reclassified to conform with the current year's presentation.

Freshwater Fish Marketing Corporation

Financial data is excluded for the Freshwater Fish Marketing Corporation since their 1999-2000 Annual Report had not been tabled in Parliament on October 6, 2000.

Great
Lakes
Pilotage
Authority

AUDITOR GENERAL OF CANADA

CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Transport

I have audited the balance sheet of Great Lakes Pilotage Authority as at December 31, 1999 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations and the by-laws of the Authority.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
February 4, 2000

GREAT LAKES PILOTAGE AUTHORITY

Balance Sheet as at December 31, 1999

	1999	1998
ASSETS		
Current		
Cash and short-term deposits (Note 3)	$ 8,170,629	$ 9,903,321
Accounts receivable (Note 4)	3,099,851	2,744,178
	11,270,480	12,647,499
Long-term		
Segregated investments (Note 3)	2,705,199	2,511,528
Capital assets (Note 5)	174,760	185,705
	$14,150,439	$15,344,732
LIABILITIES		
Current		
Accrued salaries and benefits	$ 4,767,861	$ 5,703,911
Other accounts payable and accrued charges	130,312	328,830
Accrued employee termination benefits	191,350	110,791
	5,089,523	6,143,532
Long-term		
Accrued employee termination benefits	2,486,538	2,273,724
	7,576,061	8,417,256
EQUITY		
EQUITY OF CANADA		
Capital stock (Note 6)	-	-
Contributed capital	82,074	82,074
Retained earnings	6,492,304	6,845,402
	6,574,378	6,927,476
	$14,150,439	$15,344,732

Commitments (Note 8)

The notes are an integral part of the financial statements

Approved by the Board:

Brian Ducharme
Director

Francis [illegible]
Director

GREAT LAKES PILOTAGE AUTHORITY

Statement of Operations and Retained Earnings
for the year ended December 31, 1999

	1999	**1998**
Revenues		
Pilotage charges	$ 14,263,441	$ 16,767,086
Interest and other income	477,667	396,039
Dispatching and pilot boat income	77,197	86,545
	14,818,305	17,249,670
Expenses		
Pilots' salaries and benefits (Note 7)	10,997,775	11,540,427
Transportation and travel	1,391,005	1,191,243
Operation staff salaries and benefits (Note 7)	738,806	746,257
Pilot boat services (Note 9)	531,578	551,757
Employee termination benefits	425,518	267,078
Administration staff salaries and benefits (Note 7)	362,676	356,505
Professional and special services	168,026	198,902
Utilities, materials and supplies	152,116	136,476
Communications	108,270	125,443
Amortization	77,104	74,420
Rentals	71,977	68,526
Purchased dispatching services	70,858	76,610
Repairs and maintenance	35,836	61,020
Retired employee benefits (Note 7)	25,546	29,498
Pilot training costs	14,312	124,098
	15,171,403	15,548,260
Net (loss) profit for the year	(353,098)	1,701,410
Retained earnings at beginning of the year	6,845,402	5,143,992
Retained earnings at end of the year	$ 6,492,304	$ 6,845,402

The notes are an integral part of the financial statements

GREAT LAKES PILOTAGE AUTHORITY

Statement of Cash Flows
for the year ended December 31, 1999

	1999	1998
Cash provided by (used in):		
Operating activities		
Net (loss) profit for the year	$ (353,098)	$ 1,701,410
Items not requiring cash		
Employee termination benefits	425,518	267,078
Amortization	77,104	74,420
Net change in working capital components other than cash and short-term deposits	(1,490,239)	2,032,639
Employee termination benefits payments	(132,145)	(257,821)
	(1,472,860)	3,817,726
Investing activities		
Decrease in segregated investments	(193,671)	(110,684)
Acquisition of capital assets	(66,161)	(89,984)
	(259,832)	(200,668)
Financing activities		
Refund of capital stock (Note 6)	-	(1,500)
(Decrease) Increase in cash	(1,732,692)	3,615,558
Cash and short-term deposits, beginning of year	9,903,321	6,287,763
Cash and short-term deposits, end of year	$ 8,170,629	$ 9,903,321

The notes are an integral part of the financial statements

GREAT LAKES PILOTAGE AUTHORITY

Notes to Financial Statements
December 31. 1999

1. Authority and objectives

The Great Lakes Pilotage Authority. Ltd. was established in February 1972 pursuant to the *Pilotage Act*. incorporated as a limited company in May 1972. and was continued under the *Canada Business Corporations Act*. Until October 1st. 1998. it operated under the name of Great Lakes Pilotage Authority. Ltd. and was a subsidiary of the St. Lawrence Seaway Authority. Pursuant to the *Marine Act*. which received Royal Assent on June 11 1998. the name of the Authority was changed to Great Lakes Pilotage Authority and the Authority was deemed to have been established under subsection 3(1) of the *Pilotage Act*. The Authority is a Crown corporation listed in Schedule III. Part I of the *Financial Administration Act*.

The objectives of the Authority are to establish. operate. maintain and administer a safe and efficient pilotage service within designated Canadian waters. The *Pilotage Act* provides that the pilotage tariffs shall be fair. reasonable and sufficient and. together with any revenue from other sources. shall permit the Authority to operate on a self-sustaining financial basis.

The Authority is exempt from any income taxes.

2. Significant accounting policies

Short-term deposits

Short-term deposits are recorded at cost.

Amortization

Amortization of capital assets is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

Buildings	20 years
Furniture and equipment	5 to 10 years
Software and computer equipment	5 years

Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. Contributions with respect to current service are expensed in the current period. Contributions with respect to past service benefits are expensed when paid. The Authority is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees. The current liability reflects the accrued termination benefits of only those employees who have indicated their intention to terminate their employment within the coming year.

Employee life insurance plan

The Authority participates in the St. Lawrence Seaway Authority life insurance plan for employees. Surpluses and shortfalls from the plan are included in the Statement of Operations in the year in which they are determined. The St. Lawrence Seaway Management Corporation is operating the plan until December 31. 1999. As of January 1. 2000. the employees of the Authority will be covered under the Supplementary Death Benefits provision of the *Public Service Superannuation Act* and the employees already retired will be covered by an insurance policy with Manulife.

Retired employee benefits

The Authority contributes toward medical benefits and life insurance for those retired employees who elect for such coverage. The expense is recorded in the year in which it is incurred.

3. Short-term deposits and segregated investments

The Authority invests in short-term deposits. Treasury bills. and provincial and federal bonds. As at December 31, 1999. these investments yield between 4.30% and 5.64% (4.0% and 5.6% in 1998). The maturity of these varies between 2000 and 2005 and the fair market value of all these investments as at December 31. 1999 approximates the net book value.

The Authority sets aside certain of those investments. in order to provide for the funding of future employee termination benefits. Those investments are presented as segregated investments:

	1999	**1998**
Bonds that yield between 4.90% and 5.64% and mature after 2000 (1998: yield between 5% and 5.66%, maturity date after 1999)	$2.705.199	$2.511.528

4. Accounts receivable

These amounts arise from pilotage services rendered in the normal course of business. They are collectible within a month and are non-interest bearing. The fair value approximates the book value.

5. Capital assets

	1999		
	Cost	Accumulated Amortization	Net
Buildings	$ 66.446	$ 63.817	$ 2.629
Furniture and equipment	236.872	210.094	26.778
Software and computer equipment	333.620	188.267	145.353
	$636.938	$ 462.178	$ 174.760

	1998		
	Cost	Accumulated Amortization	Net
Buildings	$ 63.642	$ 63.641	$ 1
Furniture and equipment	221.935	205.370	16.565
Software and computer equipment	285.199	116.060	169.139
	$ 570.776	$ 385.071	$ 185.705

6. Redemption of common shares

As disclosed in Note 1. the Great Lakes Pilotage Authority ceased to be a subsidiary of the St. Lawrence Seaway Authority in 1998. At that time. the Authority redeemed its capital stock previously issued. An amount of $1.500 (15 common shares at $100 each) was remitted to the St. Lawrence Seaway Authority and the shares were cancelled.

7. Employee Life Insurance Plan

A total amount of $39.866 (1998 - $48.628) representing surplus contributions in the employee life insurance plan has been deducted from the salaries and benefits for pilots. operation and administration staff and from retired employee benefits.

8. Commitments

The Authority has a lease agreement with the St. Lawrence Seaway Authority for the rental of office space which is managed by the St. Lawrence Seaway Management Corporation. Future minimum rental payments are:

2000	51.564
2001	51.564
2002	51.564
2003	51.564
2004	4.297
	$210.553

In addition, tenders have been requested for pilot boat services and land transportation services for the next two years. Expenditures for the services being tendered were approximately $377.000 for the pilot boat services and $310.000 for the land transportation services in 1999.

9. Dispatching and pilot boat services to U.S. District No. 1 pilots

As per a letter of understanding, the Authority provides without charge all dispatching services and pilot boat services in Port Weller to the U.S. District No. 1 pilots. The St. Lawrence Seaway Pilots Association (U.S. Pilots Association) provides without charge pilot boat services for the Authority at Cape Vincent, New York.

10. Related party transactions

The Authority is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the normal course of business.

11. Comparative figures

Certain 1998 figures have been reclassified to conform to the 1999 presentation.

International
Development
Research
Centre

Financial Statements

Responsibility for Financial Statements

The financial statements presented in this annual report are the responsibility of management and have been reviewed and approved by the Board of Governors of the Centre. The financial statements, which include amounts based on management's best estimates as determined through experience and judgement, have been properly prepared within reasonable limits of materiality and are in accordance with generally accepted accounting principles. Management also assumes responsibility for all other information in the annual report, which is consistent, where applicable, with that contained in the financial statements.

Management maintains financial systems and practices to provide reasonable assurance as to the reliability of financial information and to ensure that assets are safeguarded and the operations are carried out effectively and in accordance with the International Development Research Centre Act and bylaws of the Centre. The Centre has an Internal Audit department whose functions include reviewing internal controls and their application on an ongoing basis.

The Board of Governors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board benefits from the assistance of its Finance and Audit Committee in overseeing and discharging its financial management responsibility, which includes the review and approval of the financial statements. The Committee, which is made up of governors, meets with management, the internal auditors, and the external auditors on a regular basis.

The Auditor General of Canada conducts an independent examination in accordance with generally accepted auditing standards. His audit includes appropriate tests and procedures to enable him to express an opinion on the financial statements. The external auditors have full and free access to the Finance and Audit Committee of the Board.

Maureen O'Neil

Maureen O'Neil
President

Johanne Charbonneau
Vice-President, Resources

Ottawa, Canada
23 June 2000

AUDITOR GENERAL OF CANADA
VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the International Development Research Centre
and the Minister of Foreign Affairs

I have audited the balance sheet of the International Development Research Centre as at 31 March 2000 and the statements of operations and changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Centre's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Centre as at 31 March 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
26 May 2000

Balance sheet

as at 31 March 2000 (thousands of dollars)

	2000	1999
Assets		
Current		
Cash and short-term investments (Note 3)		
Unrestricted	8 417	8 424
Restricted	24 250	22 681
Accounts receivable (Note 4)	10 398	12 293
Prepaid expenses	1 495	1 974
	44 560	45 372
Long-term investments (Note 5)	2 983	2 983
Capital assets (Note 6)	6 761	7 069
Recoverable deposits	152	145
Endowment funds (Note 7)	522	354
	54 978	**55 923**
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 4)	8 711	8 028
Deferred revenue (Note 8)	31 215	27 872
	39 926	35 900
Deferred revenue — long term (Note 8)	1 572	4 119
Deferred funding — capital assets (Note 9)	6 761	7 069
Accrued departure benefits	3 178	3 104
Deferred rent — head office	1 210	936
Endowment funds (Note 7)	522	354
	53 169	51 482
Equity	1 809	4 441
	54 978	**55 923**

Contingencies (Note 16)

The accompanying notes form an integral part of the financial statements.

Approved on behalf of the Board:

Maureen O'Neil

President

Vice President, Resources
and Chief Financial Officer

Statement of Operations and Changes in Equity

for the year ended 31 March 2000 (thousands of dollars)

	2000	1999
Revenues		
Resource expansion (Note 10)	43 313	35 907
Recovery of administration costs (Note 10)	1 746	1 671
Investment income	387	2 343
Other income	706	714
	46 152	40 635
Expenses		
Development research programs		
Centre programs	55 084	58 873
Resource expansion	43 313	35 907
	98 397	94 780
Development research support		
Technical support	9 224	8 716
Other support services	7 029	6 588
Program management	4 041	3 568
	20 294	18 872
Administrative services		
Administration	14 770	12 600
Regional office management	5 573	5 253
	20 343	17 853
	139 034	131 505
Net cost of operations before government funding	(92 882)	(90 870)
Parliamentary appropriation (Note 11)	85 073	82 347
Supplementary Parliamentary appropriation (Note 12)	2 923	2 113
Amortization of deferred funding – capital assets (Note 9)	2 254	1 626
	90 250	86 086
Net results of operations	(2 632)	(4 784)
Equity at beginning of the year	4 441	9 225
Equity at end of the year	1 809	4 441

The accompanying notes form an integral part of the financial statements.

Statement of Cash Flows

for the year ended 31 March 2000 (thousands of dollars)

	2000	1999
Cash flows from operating activities		
Net results of operations	(2 632)	(4 784)
Items not affecting cash		
Amortization of capital assets	2 254	1 626
Gain on disposal of capital assets	(40)	(19)
Departure benefits	430	540
Amortization of deferred funding — capital assets	(2 254)	(1 626)
Amortization of deferred rent	274	274
	(1 968)	(3 989)
Net change in working capital other than cash and short-term investments	6 036	(483)
Net cash flows from (used in) operating activities	**4 068**	**(4 472)**
Cash flows from financing activities		
Change in deferred revenue — long-term	(2 547)	(2 275)
Capital funding	1 946	4 141
Net cash flows from (used in) financing activities	**(601)**	**1 866**
Cash flows from investing activities		
Additions to capital assets net of proceeds on disposal of equipment	(1 905)	(4 122)
Increase in restricted cash	(1 569)	(2 106)
Change in long-term investments	–	4 096
Net cash flows used in investing activities	**(3 474)**	**(2 132)**
Net decrease in cash	**(7)**	**(4 738)**
Unrestricted cash and short-term investments, beginning of the year	8 424	13 162
Unrestricted cash and short-term investments, end of the year	**8 417**	**8 424**

The accompanying notes form an integral part of the financial statements.

Notes to Financial Statements

(thousands of dollars unless otherwise stated)

1. Authority and objective

The International Development Research Centre (the Centre), a corporation without share capital, was established in 1970 by the Parliament of Canada through the International Development Research Centre Act. The Centre is funded mainly through an annual appropriation received from the Parliament of Canada. For purposes of the Income Tax Act the Centre is deemed to be a registered charitable organization.

The objective of the Centre is to initiate, encourage, support, and conduct research into the problems of the developing regions of the world and into the means for applying and adapting scientific, technical, and other knowledge to the economic and social advancement of those regions.

2. Significant accounting policies

The financial statements have been prepared in accordance with generally accepted accounting principles and reflect the following significant accounting policies.

a) Parliamentary appropriations

The portion of the Parliamentary appropriation used to fund the purchase of capital assets is deferred and amortized on the same basis and over the same period as the related capital assets. The balance is recognized in the year for which it is approved. Parliamentary appropriations received for specific projects are deferred and recognized when the related project expenses are incurred.

b) Other revenues

Funds received or receivable in respect of resource expansion are deferred and recognized as revenue when the related project expenses are incurred. All other revenues are recorded on the accrual basis of accounting.

c) Grant payments

All contractual grant payments are subject to the provision of funds by Parliament. They are recorded as an expense in the year they come due under the terms and conditions of the agreements and the Centre's payment policy. Refunds on previously disbursed grant payments are credited against the current year's expenses when the project is active or to other income when the project is closed.

d) Capital assets and amortization

Capital assets are recorded at cost and amortized, starting in the subsequent year of acquisition, over their estimated useful lives on a straight-line basis. The estimated useful life of each capital asset class is as follows:

Computer equipment	3 years
Software	3 or 5 years
Office furniture and equipment	5 years
Vehicles	3 years
Telephone system	5 years
Leasehold improvements	Remaining term of lease

e) Investments

Short-term investments are recorded at the lower of cost and market value. Long-term investments are recorded at cost. When there is a loss in value that is other than a temporary decline, the long- term investment is written down to recognize the loss.

f) Endowment funds

Endowment funds include amounts received by way of bequest, gift or donation, and are generally specific as to purpose. Expenditures relating to these funds are charged against the relevant portion of the endowment in the year they are incurred. Revenues earned on these funds are deferred as part of the endowment funds.

g) Foreign-currency translation

Foreign-currency transactions are translated into Canadian dollars either by the use of an average exchange rate that closely approximates the rate in effect at the transaction date or the actual rate in effect at the transaction date. Monetary assets and liabilities are adjusted to reflect the rate of exchange in effect at year-end. Exchange gains and losses are included in operations for the current year under other income.

h) Accrued departure benefits

Employees are entitled to specified departure benefits, calculated at salary levels in effect at the time of separation as provided for by conditions of employment. The liability for these benefits is recorded as the benefits accrue to employees.

i) Deferred rent

Any rent-free period or other incentives associated with long-term leases are deferred and amortized over the term of the lease on a straight-line basis as a reduction to the expense.

j) Pension costs

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from the employees and the Centre. These contributions represent the total pension obligations of the Centre and are recognized in the accounts on a current basis. The Centre is not required under current legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

3. Cash and short-term investments

	2000	1999
Cash	3 719	8 157
Short term investments		
Canadian chartered banks	18 963	8 932
Federal Government		4 096
Commercial companies	9 971	9 913
Foreign-owned banks	14	7
	32 667	31 105

The Centre is authorized to invest in interest-bearing securities such as issued by the above-noted entities. These funds are invested in short-term money market instruments that are rated R-1 (low) or better by a recognized bond-rating agency. The investment vehicles consist primarily of banker's acceptances, term deposits, and short-term notes.

As at 31 March 2000, the average yield of the portfolio was 5.32% (1999, 5.11%), and the average term to maturity was 85 days (1999, 59 days). The fair market value of the investment portfolio as at 31 March 2000 approximates the net book value.

The Centre has various banks accounts, some of which have a line of credit associated with them. As at 31 March 2000, all balances in these line of credit accounts were nil.

Of the total cash and short-term investments, $24 250 (1999, $22 681) is restricted for specific research activities as follows:

	2000	1999
Resource expansion	19 055	14 563
Health support – Africa	5 195	8 118
	24 250	22 681

4. Accounts receivable and payable

Accounts receivable and accounts payable are incurred in the normal course of business. All are due on demand and are noninterest bearing. The carrying amounts of each approximate fair value because of their short maturity. A significant portion (74%) of accounts receivable are due from the Canadian International Development Agency (CIDA) and does not present a significant credit risk. Of the total accounts receivable, $8 537 (1999, $10 142) is for resource expansion.

5. Long-term investments

These funds are invested in Government of Canada bonds. As at 31 March 2000, the average yield of the portfolio was 6.50% (1999, 5.63%) and the average term to maturity was 7 years.The fair market value of the investment portfolio as at 31 March 2000 is $3 044 (1999, $3 198).

6. Capital assets

	Cost		Accumulated amortization		Net book value	
	2000	1999	2000	1999	2000	1999
Computer equipment	6 955	6 757	5 661	4 915	1 294	1 842
Leasehold improvements	1 963	1 759	1 219	1 090	744	669
Software	4 318	3 528	767	40	3 551	3 488
Office furniture and equipment	1 839	1 754	1 378	1 296	461	458
Telephone system	1 376	1 359	1 086	999	290	360
Vehicles	1 000	855	579	603	421	252
	17 451	16 012	10 690	8 943	6 761	7 069

Amortization expense for the year is $2 254 (1999, $1 626).

7. Endowment funds

From time to time, the Centre receives bequests and donations from benefactors and administers the funds as directed. This activity for the year is as follows:

	2000	1999
Balance at the beginning of the year	354	348
New contributions	150	–
Interest income	18	16
Expenses	–	(10)
Balance at the end of the year	522	354

8. Deferred revenue

Deferred revenue includes the unspent portion at 31 March 2000 of funds received or receivable on resource expansion as well as the portion of the supplementary Parliamentary appropriation received in March 1994 (see Note 12). Details of these balances are as follows:

	2000	1999
Current		
Resource expansion	27 592	23 873
Supplementary Parliamentary appropriation		
Health support – Africa	3 623	3 999
	31 215	27 872
Long term		
Supplementary Parliamentary appropriation		
Health support – Africa	1 572	4 119
Total	32 787	31 991

Of the total deferred resource-expansion funding, CIDA accounts for $20 346 (1999, $17 010), of which $14 063 (1999, $8 984) was received and $6 283 (1999, $8 026) is receivable at year-end.

9. Deferred funding — capital assets

	2000	1999
Balance at beginning of year	7 069	4 554
Funding for capital assets purchased	1 946	4 141
Amortization	(2 254)	(1 626)
Balance at end of year	6 761	7 069

10. Resource expansion

Resource expansion relates specifically to research conducted or managed by the Centre on behalf of other organizations. This research is funded by CIDA, other Government of Canada entities and other agencies. A breakdown of the revenue recognition for resource expansion is provided below:

	2000	1999
CIDA	31 237	27 723
Other agencies	11 567	7 386
Other Government of Canada entities	509	798
	43 313	35 907

The Centre also recovers administration costs on resource expansion. This year's total is $1 746 (1999, $1 671), of which $926 (1999, $1 012) was recovered from CIDA.

11. Parliamentary appropriation

	2000	1999
Parliamentary appropriation approved	87 019	86 488
Deferral for capital assets purchased (Note 9)	(1 946)	(4 141)
Parliamentary appropriation recognized in the statement of operations and changes in equity	85 073	82 347

12. Supplementary Parliamentary appropriation

In March 1994, the Centre received a supplementary Parliamentary appropriation of $27 million for two specific projects. For the current fiscal year, the total revenue recognized is $2.9 million (1999, $2.1 million).

13. Operating lease commitments

The Centre has entered into various lease arrangements for staff accommodation in various countries and for office premises and equipment in Canada and abroad. The Centre's lease agreement for premises at its head office expires in 2007. The total minimum annual payments under various lease arrangements will be as follows:

2000/01	5 170
2001/02	5 453
2002/03	5 320
2003/04	5 040
2004–07	21 118
Total	42 101

14. Contractual commitments – project grants and project development

The Centre is committed to make payments up to $128.6 million (1999, $131.7 million) during the next 4 years subject to funds being provided by Parliament or external partners and subject to compliance by recipients with the terms of project agreements. Of this amount, the Centre is responsible for $69.9 million and the balance of $58.7 million is provided by external partners.

15. Related party transactions

In addition to those related party transactions disclosed elsewhere in these financial statements, the Centre is related in terms of common ownership to all Government of Canada created departments, agencies, and Crown corporations. The Centre enters into transactions with these entities in the normal course of business.

16. Contingencies

A claim of approximately $0.8 million relating to a leased property in India remains outstanding at the end of the year. Based on the advice of legal counsel, management is of the opinion that it is not possible to determine the amount of the liability, if any, that may result from settlement of this claim. The Centre is a defendant in other pending lawsuits. In management's opinion, the outcome of these other actions is not likely to result in any material liabilities.

17. Comparative figures

Certain 1999 comparative amounts have been reclassified to conform to the financial statements presentation adopted in 2000.

Laurentian
Pilotage
Authority

STATEMENT OF MANAGEMENT RESPONSIBILITY

The management of the Authority is responsible for the performance of the duties delegated to them by its Board of Directors. These include the preparation of the annual report and the production of its content, including the financial statements. The financial statements were prepared in accordance with generally accepted accounting principles on a basis consistent with that of the preceding year, and include estimates based on management's experience and judgement.

Management maintains books and records, financial and management control, information systems and management practices designed in such a manner as to provide reasonable assurance that: reliable and accurate financial information is produced on a timely basis; assets are safeguarded and controlled; transactions are in accordance with Part X of the *Financial Administration Act* and its regulations as well as the *Pilotage Act* and regulations and by-laws of the Authority and any directives given to it; resources are managed economically and efficiently, and that the operations of the corporation are carried out effectively.

The Auditor General of Canada conducts an independent audit of the financial statements of the Authority in accordance with generally accepted auditing standards.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control, and exercises this responsibility through the Audit Committee, composed of three directors who are not employees of the Authority. The Audit Committee discharges the responsibilities conferred upon it by the Board of Directors, and meets on a regular basis with management and the Auditor General of Canada, who has unrestricted access to the Committee.

Jean-Claude Michaud
Président

Yvon Martel
Yvon Martel
Trésorier

Montreal, Quebec
February 11, 2000

AUDITOR GENERAL OF CANADA VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Transport

I have audited the balance sheet of the Laurentian Pilotage Authority as at December 31, 1999 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations and the by-laws of the Authority.

Sheila Fraser

Sheila Fraser, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
February 11, 2000

LAURENTIAN PILOTAGE AUTHORITY

Balance Sheet
as at December 31, 1999

	1999	1998
Assets		
Current		
Cash	94,908	599,678
Accounts receivable	6,409,174	5,723,214
	$ 6,504,082	$ 6,322,892
Capital assets (Notes 4 and 5)	3,331,660	3,231,174
	$ 9,835,742	$ 9,554,066
Liabilities		
Current		
Current portion of bank loans (Note 5)	981,114	921,183
Accounts payable	6,725,292	6,065,949
	$ 7,706,406	$ 6,987,132
Long term		
Provision for employee termination benefits	822,924	755,140
Bank loans (Note 5)	2,824,601	3,805,715
	3,647,525	4,560,855
	$ 11,353,931	$ 11,547,987
Equity of Canada		
Contributed capital	2,479,154	2,479,154
Deficit	(3,997,343)	(4,473,075)
	(1,518,189)	(1,993,921)
	$ 9,835,742	$ 9,554,066

The accompanying Notes are an integral part of these financial statements.

Approved by the Authority:

Chairman
JEAN-CLAUDE MICHAUD

Member
MICHAEL B. MILNER

LAURENTIAN PILOTAGE AUTHORITY

Statement of Operations and Deficit for the year ended December 31, 1999

	1999	1998
Revenues		
Pilotage charges	41,647,204	41,229,957
Interest and other revenues	41,514	80,787
	$ 41,688,718	$ 41,310,744
Expenses		
Pilots' fees, salaries and benefits	33,565,936	33,085,894
Operating costs of pilot boats (Note 5)	4,284,645	4,478,583
Staff salaries and benefits	1,947,760	1,815,619
Professional and special services	616,713	617,898
Rentals	204,532	172,825
Financing costs	155,347	212,886
Utilities, material and supplies	115,035	113,020
Communications	88,241	74,932
Transportation, travel and hospitality	70,986	89,270
Maintenance	35,861	56,611
Other	127,930	129,690
	$ 41,212,986	$ 40,847,228
Net income for the year	$ 475,732	$ 463,516
Deficit, beginning of the year	(4,473,075)	(4,936,591)
Deficit, end of the year	$ (3,997,343)	$ (4,473,075)

The accompanying Notes are an integral part of these financial statements.

LAURENTIAN PILOTAGE AUTHORITY

Statement of Cash Flows
for the year ended December 31, 1999

	1999	1998
Operating activities		
Net income for the year	**475,732**	463,516
Non-cash items:		
Amortization	**290,060**	287,207
Increase in the provision for employee termination benefits	**67,784**	49,542
	$ 833,576	$ 800,265
Decrease (increase) in accounts receivable	**(685,960)**	1,686,798
Increase (decrease) in accounts payable	**659,343**	(1,142,070)
	$ 806,959	$ 1,344,993
Investing activities		
Additions to capital assets	**$ (390,546)**	$ (336,881)
Financing activities		
Bank loan	**--**	1,000,000
Repayment on bank loans	**(921,183)**	(837,045)
	$ (921,183)	$ 162,955
Cash		
Increase (decrease) for the year	**(504,770)**	1,171,067
Balance, beginning of the year	**599,678**	(571,389)
Balance, end of the year	**$ 94,908**	$ 599,678

The accompanying Notes are an integral part of these financial statements.

LAURENTIAN PILOTAGE AUTHORITY

Notes to Financial Statements
December 31, 1999

1. Authority and activities

The Laurentian Pilotage Authority was established in 1972 under the Pilotage Act. Its objectives are to establish, operate, maintain and administer in the interests of safety an efficient pilotage service within certain designated Canadian waters in and around the Province of Quebec. The Act provides that pilotage tariffs shall be fair and reasonable and assure a revenue which, together with any revenue from other sources, is sufficient to permit the Authority to operate on a self-sustaining basis. In accordance with the new Canada Marine Act assented to on June 11, 1998 (Bill C-9) that modified the Pilotage Act, the Authority no longer has access to Parliamentary appropriations.

The Authority is a Crown corporation named in Part I of Schedule III to the Financial Administration Act. The Authority is not an agent of Her Majesty and is exempt from income taxes.

2. Significant accounting policies

The financial statements of the Laurentian Pilotage Authority have been prepared in accordance with generally accepted accounting principles. The significant accounting policies used in the preparation of these financial statements are summarized below.

Capital assets

Capital assets obtained from Canada when the Authority was established were recorded at the then assigned values. Capital assets purchased subsequently by the Authority are recorded at cost.

Capital assets are amortized using the straight-line method, at rates based on the estimated useful lives of the assets.

The estimated useful lives for the major categories of capital assets for the purposes of calculating amortization are as follows:

Buildings	10 years
Pilot boats	10 and 15 years
Furniture and fixtures	10 years
Communications equipment	10 years
Computer equipment	5 years
Boarding facilities	15 and 20 years
Wharf improvements	15 years

Contributed capital

The values assigned to the capital assets obtained from Canada when the Authority was established and the net cost of capital assets financed from parliamentary appropriations are recorded as contributed capital.

Pension plan

Employees participate in the Superannuation Plan administered by the Government of Canada. The employees and the Authority contribute equally to the cost of the Plan. This contribution represents the total pension obligation of the Authority. Contributions in respect of current service and of admissible past service are expensed when paid. The terms of payment of past service contributions are set by the applicable purchase conditions, generally over the number of years of service remaining prior to retirement.

The Authority is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

Employee termination benefits

On termination of employment, employees are entitled to certain benefits provided for under their collective agreements and their conditions of employment. Generally, the benefits equal one week of salary for each year of employment. The cost of these benefits is expensed in the year in which they are earned.

Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

3. Fair values of financial instruments

The transactions related to accounts receivable and accounts payable are incurred in the normal course of business. The carrying amounts of each of these accounts approximate their fair value because of their short-term maturity. There is no concentration of accounts receivable with any customer and, consequently, the credit risk is low.

On December 31, 1999, the fair value of the bank loans is estimated at $3,799,081 ($4,829,042 on December 31, 1998) while the book value is $3,805,715 ($4,726,898 on December 31, 1998). This estimate is based on the future principal repayments discounted at current interest rates for similar loans.

LAURENTIAN PILOTAGE AUTHORITY

Notes ot Financial Statements (continued)
December 31, 1999

4. Capital assets

	1999			1998		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Land	9,300	–	9,300	9,300	–	9,300
Buildings	66,386	37,725	28,661	66,386	34,669	31,717
Pilot boats	3,758,313	1,998,007	1,760,306	3,758,313	1,836,432	1,921,881
Furniture and fixtures	151,397	119,519	31,878	150,462	112,541	37,921
Communications equipment	93,274	42,901	50,373	96,515	35,568	60,947
Computer equipment	866,284	137,615	728,669	480,504	106,657	373,847
Boarding facilities	303,344	228,868	74,476	303,344	220,580	82,764
Wharf improvements	1,090,318	442,321	647,997	1,090,318	377,521	712,797
	$ 6,338,616	$ 3,006,956	$ 3,331,660	$ 5,955,142	$ 2,723,968	$ 3,231,174

Amortization for the year is $ 290,060 ($ 287,207 in 1998).

5. Bank Loans

		1999	1998
Loan to finance the acquisition of a pilot boat matures in 2001 and bears interest at a rate of 7.23%. The capital repayments are calculated based on an amortization period of 15 years, guaranteed by a first maritime mortgage on a pilot boat with a net book value of $ 1,759,029.		2,064,028	2,173,524
Loan to finance the cash deficit of the year 1996 matures in 2002 and bears interest at a rate of 7.10%.		1,360,066	1,840,272
Loan to finance the cash deficit of the year 1997 matures in 2001 and bears interest at a rate of 5.9%.		381,621	713,102
		$ 3,805,715	$ 4,726,898
Less: current portion		981,114	921,183
		$ 2,824,601	$ 3,805,715
As at December 31, the capital repayments of these loans for the following years are as follows:	1999	–	921,183
	2000	981,114	981,114
	2001	2,532,944	2,532,944
	2002	291,657	291,657
		$ 3,805,715	$ 4,726,898

Interest expense in the amount of $153,399 ($160,702 in 1998) related to the bank loan to finance a pilot boat is recorded in the item " Operating costs of pilot boats ".

6. Contingencies

In connection with its operations, the Authority is the claimant or defendant or otherwise involved in pending claims and lawsuits. It is the opinion of management that these actions will not result in any material liabilities to the Authority. No provision has been recorded in the accounts in this regard.

7. Commitments

The future minimum payment commitments under an operating lease related to the rental of premises are as follows:

2000	185,251
2001	185,251
2002	185,251
2003	185,251
2004	30,875
	$771,879

8. Related party transactions

The Authority is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the normal course of business.

9. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. Although the change in date has occured, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Authority, including those related to customers, suppliers, or other third parties, have been fully resolved.

Marine
Atlantic
Inc.

MANAGEMENT RESPONSIBILITIES FOR FINANCIAL REPORTING

The preparation and presentation of the financial statements is the responsibility of Marine Atlantic's management. These financial statements have been prepared in accordance with generally accepted accounting principles consistently applied using management's best estimates and judgements that are considered appropriate to the Corporation's circumstances. Management also relies on an actuarial report to record the activities of the pension fund.

Management is responsible for the reliability and integrity of the financial statements including the notes to the statements and other financial information contained in the annual report. In addition, management is also responsible for maintaining books of account, information systems, systems of financial and management control, and a comprehensive internal audit program. These managerial controls and procedures are intended to provide reasonable assurance that accurate financial information is available, that assets are safeguarded and controlled, that resources are managed efficiently, and that transactions are conducted in accordance with relevant legislation and the articles of incorporation and by-laws of the Corporation and its wholly owned subsidiary.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee, on behalf of the Board, fulfills this responsibility. The Committee reviews matters related to accounting, auditing, internal control systems, and the financial statements.

The Auditor General of Canada, the independent auditor of the Corporation appointed under the Financial Administration Act, has audited the Corporation's financial statements in accordance with generally accepted auditing standards. The independent auditor has full and unrestricted access to the Audit Committee to discuss his audit and related findings.

The financial statements and the annual report have been approved by the Board of Directors.

Donald G. Newman
D.G. Newman, MSc, MBA
Vice-president
Finance & Administration

DJWeaver
D.J. Weaver, CA
Acting President & CEO

Moncton, Canada February 25, 2000

AUDITOR'S REPORT

To the Minister of Transport
I have audited the balance sheet of Marine Atlantic Inc. as at December 31, 1999 and the statements of earnings, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation and of its wholly-owned subsidiary that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, *the Marine Atlantic Inc. Acquisition Authorization Act* and the articles of incorporation and by-laws of the Corporation and its wholly-owned subsidiary.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada February 25, 2000

BALANCE SHEET

December 31, 1999
(in thousands of dollars)

	1999	1998
Assets		
Current assets:		
Cash	$ 8,225	$ 20,006
Accounts receivable (note 3)	4,698	5,032
Inventory of fuel and supplies	1,998	1,237
Prepaid expenses	6,029	4,544
Discontinued operation (note 4)	1	9
	20,951	30,828
Capital assets (note 5)	183,962	197,391
	$ 204,913	$ 228,219
Liabilities and Shareholder's Deficiency		
Current liabilities:		
Accounts payable and accrued liabilities	$ 5,531	$ 7,521
Payable to Government of Canada (note 6)	6,518	13,561
Accrued vacation pay	3,691	3,606
Payable to third parties on behalf of subsidiary (note 4)	1,858	2,319
Current portion of provision for restructuring (note 7)	6,832	9,211
	24,430	36,218
Provision for restructuring (note 7)	12,224	17,572
Deferred capital assistance	183,962	197,391
Shareholder's deficiency:		
Share capital (note 8)	258,530	258,530
Deficit	(274,233)	(281,492)
	(15,703)	(22,962)
Commitments and contingencies (note 10)		
	$ 204,913	$ 228,219

See accompanying notes to financial statements.

On behalf of the Board:

Weaver
Director

Hynes
Director

STATEMENT OF EARNINGS

Year Ended
December 31, 1999
(in thousands of dollars)

	1999	1998
Revenue:		
Commercial revenue	$ 52,337	$ 47,848
Charter revenue	–	2,424
	52,337	50,272
Operating expenses:		
Wages and benefits	38,064	37,043
Fuel	9,933	9,236
Materials	8,898	7,730
Contracted services	6,828	8,188
Other	3,425	3,434
Insurance, rent and utilities	2,437	3,199
Amortization	17,327	17,481
	86,912	86,311
Loss from continuing operations before provision for restructuring and government funding	34,575	36,039
Restructuring:		
Write down and loss (gain) on disposal of capital assets	821	(2,338)
Provision for restructuring (note 7)	1,140	9,572
Loss from continuing operations and restructuring before government funding	36,536	43,273
Government funding:		
Operations	16,113	13,844
Restructuring	8,487	3,466
Amortization of deferred capital assistance	19,203	21,057
Earnings (loss) from continuing operations	7,267	(4,906)
(Loss) gain from discontinued operation (note 4)	(8)	2,343
Net earnings (loss)	$ 7,259	$ (2,563)

STATEMENT OF DEFICIT

Year Ended
December 31, 1999
(in thousands of dollars)

	1999	1998
Deficit, beginning of year	$ (281,492)	$ (278,929)
Net earnings (loss)	7,259	(2,563)
Deficit, end of year	$ (274,233)	$ (281,492)

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

Year Ended
December 31, 1999
(in thousands of dollars)

	1999	1998
Cash flows from:		
Operating activities:		
Cash receipts from customers	$ 53,014	$ 49,948
Government funding	23,308	63,373
Cash paid to suppliers and employees	(75,317)	(75,870)
Cash paid for restructuring	(8,858)	(28,699)
	(7,853)	8,752
Investing activities:		
Purchase of capital assets	(5,585)	(1,237)
Proceeds from sale of capital assets	1,973	5,998
Costs of disposal of capital assets	(316)	(479)
	(3,928)	4,282
(Decrease) increase in cash	(11,781)	13,034
Cash, beginning of year	20,006	6,972
Cash, end of year	$ 8,225	$ 20,006

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Year Ended
December 31, 1999
(in thousands of dollars)

1. Nature of Operations and Authority

The Marine Atlantic Inc. Acquisition Authorization Act was proclaimed in 1986. In accordance with the Act, the Corporation's articles restrict the business it may carry on to the acquisition, establishment, management and operation of a marine transportation service, a marine maintenance repair and refit service, a marine construction business and any service or business related thereto. Its corporate mission is "to provide our customers with a safe, environmentally responsible and quality Newfoundland-mainland ferry service in a reliable, courteous and cost-effective manner". Marine Atlantic Inc. is a federal Crown corporation listed in Schedule III, Part I of the Financial Administration Act and is not subject to income tax under the provisions of the Income Tax Act.

The Corporation's activities are also governed by agreements negotiated with the Government of Canada, subject to approval of parliamentary appropriations. The agreements provide, among other things, for the Corporation to receive parliamentary appropriations for operations from the Government of Canada to the extent that the cost of providing ferry services is not recovered from commercial revenues. In addition, the acquisition of capital assets, restructuring costs, and Newfoundland Dockyard Corporation funding requirements are also governed by agreements, subject to approval of parliamentary appropriations. As a result, the Corporation is economically dependent on the Government of Canada.

The Corporation operates a ferry service between Nova Scotia and Newfoundland. This service encompasses the year-round ferry service between North Sydney, Nova Scotia and Port aux Basques, Newfoundland and the seasonal summer service between North Sydney, Nova Scotia and Argentia, Newfoundland.

2. Significant Accounting Policies:

a) Basis of presentation:

The financial statements are prepared in accordance with generally accepted accounting principles. During the year, the Corporation completed its formal plan for the sale of the assets of the Newfoundland Dockyard Corporation. The carrying value of the subsidiary is determined using the equity method (see also note 4).

b) Parliamentary appropriations:

Parliamentary appropriations to fund the current cash needs, related to operating expenses and restructuring costs in excess of commercial revenues, are included in earnings for the year. Any difference between amounts provided and required represents a receivable from (payable to) the Government of Canada. Funds related to capital additions are recorded as deferred capital assistance in the year in which the related capital assets are acquired, and are amortized to income on the same basis and over the same periods as the related capital assets are amortized or written off.

NOTES TO FINANCIAL STATEMENTS

Year Ended
December 31, 1999
(in thousands of dollars)

2. Significant Accounting Policies (continued):

c) Management estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, expenses and the disclosure of contingent liabilities at the date of the financial statements. Despite the use of the Corporation's best estimates, it is possible that the amounts for the following balance sheet items and related expenses could change materially in the near term: provision for restructuring (see also note 7), future liabilities for workers' compensation benefits (see also note 10 (d)), litigation (see also note 10) and pensions (see also note 11).

d) Fair values:

The fair values of financial instruments are determined as follows:

- Current portion of provision for restructuring – using cash flows of estimated future payments without discounting (see also note 7).

- Provision for restructuring – using discounted cash flows of estimated future payments based on current interest rates (see also note 7).

- Pensions – the net present value of the accrued pension benefit is based on an extrapolation of the actuarial valuation at December 31, 1997 using management's best estimate assumptions. Pension plan assets are valued at market as at December 31, 1999 (see also note 11).

e) Inventory of fuel and supplies:

Inventories are valued at the lower of cost and replacement cost. Cost is determined on a weighted-average basis.

f) Capital assets and amortization:

Capital assets in use are carried at cost less accumulated amortization. Amortization is calculated at rates sufficient to write off capital assets over their estimated useful lives generally on a straight-line basis. The rates for significant classes of capital assets are as follows:

Capital Asset	Rate
Vessels	5%
Terminal properties	2.5%
Equipment	10%, 12.5% and 25%
Leasehold improvements	lesser of 5 years or term of lease

The Corporation recognizes a gain or loss on the disposal of assets. Net proceeds are applied against the operating funding requirements in the period of disposition.

NOTES TO FINANCIAL STATEMENTS

Year Ended
December 31, 1999
(in thousands of dollars)

2. Significant Accounting Policies (continued):

g) Vessel spare parts:

The Corporation maintains spare parts for vessels in service. The cost of spare parts is charged to operations when the spare parts are acquired.

h) Foreign currency translation:

Monetary assets and liabilities denominated in a foreign currency are translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities, revenues and expenses are translated using exchange rates in effect at the date of the transaction. Commitments and contingencies denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date.

i) Employee compensation:

I. Pension plans:

Current service costs are actuarially determined and charged to operations as they accrue based on services rendered during the year. Adjustments arising from experience gains and losses are amortized on a straight-line basis over the estimated average remaining service life of the employee group.

II. Personal injury costs:

Certain employees, retired or unable to perform their duties temporarily as a result of work-related injury, receive specified benefits administered and paid by the workers' compensation boards of the four Atlantic Provinces. The Corporation recognizes the payments as an expense in the year paid to the workers' compensation boards and, therefore, no amounts have been recorded in the financial statements for anticipated future costs. These amounts may be significant.

j) Provision for restructuring:

The Corporation recognizes liabilities for termination benefits, related to employees to be terminated as a result of restructuring, when the decision has been approved by the Government of Canada for such restructuring and an estimate of the anticipated costs can be reasonably calculated. The anticipated costs relate to specific agreements that have been reached with union groups representing most employees and management's intentions for planned termination benefits for other employees. The nature of the liability includes severance payments, interim payments to bridge employees until pension entitlement and certain long-term health care benefits. All other costs related to restructuring are expensed as incurred.

The Corporation recognizes management's best estimate of costs associated with adjustment of the pension expenses, lay-up of vessels and miscellaneous expenses required to carry out the Corporation's formal plans related to restructuring when the decision has been approved by the Government of Canada and an estimate can be reasonably made (see also note 7). Changes to these estimates are charged or credited to the statement of earnings in the period they are reassessed.

NOTES TO FINANCIAL STATEMENTS

Year Ended
December 31, 1999
(in thousands of dollars)

3. Accounts Receivable:

Accounts receivable are comprised of the following:

	1999	1998
Trade receivables	$ 2,381	$ 3,058
Other receivables	1,280	1,625
Insurance receivable	1,037	349
	$ 4,698	$ 5,032

The Corporation provides services to numerous customers. However, 5 customers represent 45% of the trade receivables (1998 - 7 customers represented 48%). The insurance receivable is from one broker representing a number of insurers.

4. Discontinued Operation:

During the year, the Corporation completed its formal plan, announced in 1996, for the sale of the assets of its subsidiary, the Newfoundland Dockyard Corporation. Execution of this plan resulted in the closure of the operation, the termination of all employees, and the disposal of assets in 1999.

On November 17, 1999, the Corporation sold the assets of Newfoundland Dockyard Corporation for proceeds of $1. Marine Atlantic Inc. will assume all outstanding liabilities of the subsidiary, Newfoundland Dockyard Corporation.

The results of the subsidiary's operations are as follows:

	1999	1998
(Loss) income from discontinued operation	$ (8)	$ 2,343

Newfoundland Dockyard Corporation had nil sales to the parent company in 1999 (1998 - Nil).

The liabilities of the subsidiary included in the financial statements at December 31 are summarized as follows:

	1999	1998
Accounts payable and accrued liabilities	$ 300	$ -
Provision for closure costs	738	1,170
Separation costs payable	820	1,149
	$ 1,858	$ 2,319

There is an outstanding former employees' union challenge to an arbitration decision on the final settlement of the subsidiary's employee termination benefits related to its closure. Depending upon the final outcome of this issue, the actual amount could be materially higher than the estimate recorded by management. These liabilities are calculated using discount factors at current interest rates.

NOTES TO FINANCIAL STATEMENTS

Year Ended

December 31, 1999

(in thousands of dollars)

5. Capital Assets:

			1999	1998
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Vessels	$293,475	$164,885	$128,590	$144,264
Terminal properties	86,063	33,096	52,967	50,855
Equipment	19,844	17,663	2,181	1,635
Leasehold improvements	302	78	224	637
	$399,684	$215,722	$183,962	$197,391

6. Payable to Government of Canada:

Appropriations received from the Government of Canada were used as follows:

	1999	1998
(Payable to) Receivable from Government of Canada, beginning of year	$ (13,561)	$ 31,077
Cash received during the year:		
Government appropriations	(23,308)	(63,373)
Paid and accrued for:		
Operations	16,113	13,844
Restructuring costs	8,487	3,466
Capital	5,751	1,425
Payable to Government of Canada, end of year	$ (6,518)	$ (13,561)

NOTES TO FINANCIAL STATEMENTS

Year Ended

December 31, 1999

(in thousands of dollars)

7. Provision for Restructuring:

On April 1, 1997, Marine Atlantic Inc. transferred the Bay of Fundy and the Newfoundland and Labrador Coastal services to others and on May 31, 1997, closed the New Brunswick to Prince Edward Island service. Funding of costs related to these service divestitures is governed by agreements with the Government of Canada, subject to parliamentary approval.

Management's estimate for the liabilities associated with restructuring at December 31, including current and non-current amounts is:

	1999	**1998**
Employee termination benefits	$ 22,218	$ 29,937
Pension curtailment	(3,162)	(3,154)
Provision for restructuring	19,056	26,783
Less current portion	6,832	9,211
Non-current portion	$ 12,224	$ 17,572

The Corporation's estimate of employee termination benefits is based upon special termination agreements with unionized employees which cover most of the employee groups affected by the transferred and closed services, and a separate termination benefit program for other employees. These arrangements were used to estimate a liability for planned workforce reductions based on employee requirements after the restructuring outlined in the Corporation's formal plans. The statement of earnings includes a charge of $1,140 (1998 - $9,572) for restructuring costs related to updated estimates based on actual experience and new data. The estimate could be significantly different if the key assumptions used by management for major determinants of the estimate vary from those planned. The Corporation made significant assumptions in preparing this estimate, including: interest rates for discount factors for the non-current portion of the liability, planned termination dates and the number of terminations.

The pension adjustment credit as at December 31, 1999 of $3,162 (1998 - $3,154) relates to the recognition of a partial pension plan curtailment as a result of terminations. The statement of earnings includes an adjustment of $8 (1998 - $1,100) to the provision for restructuring costs. The Corporation's actuary determined these estimates based on management's assumptions.

8. Share Capital:

The authorized share capital of the Corporation is comprised of an unlimited number of common shares of no par value. As at December 31, 1999, 517,061 (1998 - 517,061) shares at $.50 (1998 - $.50) per share have been issued and fully paid.

9. Related Party Transactions:

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business. In addition to these transactions, the Government of Canada provides funding to the Corporation as described in note 2(b).

NOTES TO FINANCIAL STATEMENTS

Year Ended
December 31, 1999
(in thousands of dollars)

10. Commitments and Contingencies:

a) The total amount required to complete contracted capital assets under construction at December 31, 1999 is $2,182 (1998 - $258).

b) The Corporation makes use of property which is available through operating leases. The minimum annual lease payments are as follows: 2000 - $133; 2001 - $51.

c) The Corporation is in receipt of claims estimated at $950 (1998 - $2,200) (excluding note 10 (e)). Management has recognized as an accrual an estimate of the liability and does not foresee this being materially higher in the near term.

d) The Corporation's bank has provided a letter of credit in favour of the Workplace Health, Safety and Compensation Commission of New Brunswick to guarantee payment of future liabilities in the amount of $4,200 (1998 - $4,200). Management has not recognized any costs that will be associated with future workers' compensation benefits. There are four provinces to which the Corporation will have future liabilities for past injury claims. It is expected that these costs may be significant given that total payment in 1999 for these claims was $1,604 (1998 - $1,288) (see also note 2(i) (II)).

e) The Corporation has provided five letters of guarantee in the total amount of $2,464 (1998 - $2,464), to five creditors of a charter company. The guarantees were given to obtain the release of a vessel of the Corporation from arrest, which occurred when the company that had the vessel under charter went bankrupt.
The Corporation has guaranteed to pay the creditors certain claims when and if they are deemed by the courts to be valid. Such costs will be included in operating expenses as incurred or when reasonable estimates can be made.

f) In connection with its operations, the Corporation is the claimant or defendant or otherwise involved in pending claims and lawsuits. It is the opinion of management that these actions will not result in any material liabilities to the Corporation. No provision has been recorded in the accounts in this regard.

11. Pensions:

The Corporation maintains, through a trustee, a defined benefit pension plan covering substantially all of its employees. Benefits generally are based on employees' length of service and rate of pay. The last actuarial valuation as at December 31, 1997 identified a net surplus for the plan.

The present value of pension plan benefits and current pension expense are actuarially determined based on assumptions provided by the Corporation's management. The most significant of these are an interest rate of 7.5% (1998 - 7.5%) and wage increases of 5% plus merit increases (1998 - 5% plus merit increases). Differences in actual future interest rates and wage increases could result in materially different pension obligations.

NOTES TO FINANCIAL STATEMENTS

Year Ended
December 31, 1999
(in thousands of dollars)

The Corporation's pension costs and obligations as at December 31 consist of:

	1999	1998
Pension fund assets (market value)	$ 437,697	$ 443,461
Pension obligations	$ 387,782	$ 377,970
Determination of pension expense (income) for the year is calculated as:		
Current service cost	$ 4,411	$ 2,401
Interest on pension obligations	24,939	25,966
Return on fund assets	(28,349)	(28,204)
Other	(2,713)	(1,382)
Pension income	$ (1,712)	$ (1,219)

The cumulative difference of $5,715 (1998 - $3,945) between the amounts expensed and funding contributions is included in the balance sheet as a component of prepaid expenses.

12. Uncertainty due to the Year 2000 Issue:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

13. Restatement of 1998 figures:

Certain of the 1998 figures have been reclassified to conform to the presentation adopted in 1999.

National
Arts
Centre
Corporation

MANAGEMENT RESPONSIBILITIES

The Board of Trustees, which is responsible for, among other things, the financial statements of the Corporation, delegates to Management the responsibility for the preparation of the financial statements and the annual report. Responsibility for their review is that of the Audit Committee of the Board of Trustees. The financial statements were prepared by Management in accordance with generally accepted accounting principles and include estimates based on Management's experience and judgement. The financial statements have been approved by the Board of Trustees on the recommendation of the Audit Committee. Other financial and operating information appearing in this annual report is consistent with that contained in the financial statements.

Management maintains books and records, financial and management control and information systems designed in such a manner as to provide reasonable assurance that reliable and accurate information is produced on a timely basis and that transactions are in accordance with the *National Arts Centre Act* and by-laws of the Corporation.

The Board of Trustees of the Corporation is responsible for ensuring that Management fulfils its responsibilities for financial reporting and internal control, and exercises this responsibility through the Audit Committee. The Audit Committee discharges the responsibilities conferred upon it by the Board of Trustees, and meets on a regular basis with Management, and with the Auditor General of Canada, who has unrestricted access to the Committee.

The Auditor General of Canada conducts an independent audit of the financial statements of the Corporation in accordance with generally accepted auditing standards and reports on the results of that audit to the Chair of the Board of Trustees of the National Arts Centre Corporation on an annual basis.

PETER A. HERRNDORF, O.C.
Director General and Chief Executive Officer

DANIEL SENYK, CA
Corporate Comptroller

OCTOBER 22, 1999

AUDITOR GENERAL OF CANADA VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

TO THE CHAIR OF THE BOARD OF TRUSTEES OF THE
NATIONAL ARTS CENTRE CORPORATION

I have audited the balance sheet of the National Arts Centre Corporation as at August 31, 1999 and the statements of operations, equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at August 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

RICHARD FLAGEOLE, FCA
Assistant Auditor General for the Auditor General of Canada

OTTAWA, CANADA, OCTOBER 22, 1999

BALANCE SHEET

As at August 31, 1999

	1999	1998
Assets		
Current		
Cash and short-term investments including Challenge Fund — NOTE 3 & 10	$ 9,354,906	$ 4,115,569
Accounts receivable	1,533,014	2,874,919
Restricted cash and investments — NOTE 4	146,932	128,243
Parliamentary appropriation receivable	—	195,686
Inventories	263,174	284,041
Programmes in progress	1,428,542	1,551,388
Prepaid expenses	173,211	200,828
	12,899,779	9,350,674
Contributions receivable — NOTE 5	205,000	800,000
Capital assets — NOTE 6	6,819,273	7,664,998
	$ 19,924,052	$ 17,815,672
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 4,026,237	$ 4,964,673
Deferred revenue	7,000,927	4,825,379
	11,027,164	9,790,052
Deferred contributions — NOTE 7	512,202	894,968
Deferred capital funding — NOTE 8	6,819,273	7,664,998
Long-term portion of provision for employee termination benefits	1,149,980	1,096,412
	19,508,619	19,446,430
Endowment Fund — NOTE 9	33,275	33,275
Equity of Canada		
Accumulated surplus (deficit)	382,158	(1,664,033)
Contingencies and commitments — NOTE 12 & 13		
	$ 19,924,052	$ 17,815,672

The accompanying notes and schedules form an integral part of the financial statements.

Approved by the Board of Trustees:

David S. R. Leighton

Chair

Louise B. Vaillancourt

Chair of the Audit Committee

Approved by Management:

Director General and Chief Executive Officer

Corporate Comptroller

STATEMENT OF OPERATIONS

For the year ended August 31, 1999

	1999	1998
Revenues		
Commercial operations — SCHEDULE 1	$ 9,882,331	$ 10.722.136
Programming — SCHEDULE 2	9,725,576	8.530.519
Fundraising including Challenge Fund — NOTE 10	2,846,854	1.398.366
Facility fees	591,788	601.567
Investments and other	400,663	302.332
	23,447,212	21.554.920
Expenses		
Commercial operations — SCHEDULE 1	6,849,658	7.624.568
Programming — SCHEDULE 2	20,365,660	20.955.184
Fundraising and development including Challenge Fund — NOTE 10	966,837	886.696
Building operations	9,918,236	10.619.019
Administration	4,634,402	3.370.087
Information technology	1,533,864	1.452.386
	44,268,657	44.907.940
Results of operations before government funding	(20,821,445)	(23.353.020)
Parliamentary appropriation for operating expenditures	20,486,012	18.152.820
Amortization of deferred capital funding — NOTE 8	2,381,624	2.144.771
	22,867,636	20.297.591
Net results of operations	$ 2,046,191	$ (3.055.429)

The accompanying notes and schedules form an integral part of the financial statements.

STATEMENT OF EQUITY

For the year ended August 31, 1999

	1999	1998
Balance at beginning of year	$ (1,664,033)	$ 1.391.396
Net results of operations	2,046,191	(3.055.429)
Balance at end of year	$ 382,158	$ (1.664.033)

The accompanying notes and schedules form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

For the year ended August 31, 1999

	1999	1998
Operating activities		
Net results of operations	$ 2,046,191	$ (3,055,429)
Items not affecting cash and investments:		
Amortization	2,381,624	2,144,771
	4,427,815	(910,658)
Changes in non-cash operating assets and liabilities	2,946,033	559,579
Changes in contributions receivable	595,000	(800,000)
Changes in deferred contributions	(382,766)	796,481
Changes in deferred capital funding	(845,725)	(108,307)
Changes in long-term portion of provision for employee termination benefits	53,568	103,788
Cash flows from operating activities	6,793,925	(359,117)
Investing activities		
Additions to capital assets	(1,535,899)	(2,036,464)
Restricted cash and investments	(18,689)	3,519
Cash flows from investing activities	(1,554,588)	(2,032,945)
Increase (decrease) in cash position	5,239,337	(2,392,062)
Cash position at beginning of year	4,115,569	6,507,631
Cash position at end of year	$ 9,354,906	$ 4,115,569
Composed of:		
Cash and short-term investments	$ 7,641,116	$ 4,115,569
Challenge fund	1,713,790	—
	$ 9,354,906	$ 4,115,569

The accompanying notes and schedules form an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

August 31, 1999

1. AUTHORITY, OBJECTIVES AND OPERATIONS

The National Arts Centre Corporation (the "Corporation" or the "Centre") was established in 1969 pursuant to the *National Arts Centre Act* and is not subject to the provisions of the Income Tax Act. Pursuant to Section 85 (1) of Part X of the *Financial Administration Act*, Divisions I to IV of Part X do not apply to the Corporation.

The objectives of the Corporation are to operate and maintain the National Arts Centre, to develop the performing arts in the National Capital Region, and to assist the Canada Council in the development of the performing arts elsewhere in Canada.

In furtherance of its objectives, the Corporation may arrange for and sponsor performing arts activities at the Centre; encourage and assist in the development of performing arts companies resident at the Centre; arrange for or sponsor radio and television broadcasts and the showing of films in the Centre; provide accommodation at the Centre, on such terms and conditions as the Corporation may fix, for national and local organizations whose objectives include the development and encouragement of the performing arts in Canada; and, at the request of the Government of Canada or the Canada Council, arrange for performances elsewhere in Canada by performing arts companies, whether resident or non-resident in Canada, and arrange for performances outside Canada by performing arts companies resident in Canada.

With a view to achieving the objectives, the Government of Canada has leased without charge the National Arts Centre building complex to the Corporation. The lease is being renewed on a yearly basis. The Corporation is responsible for the operation and maintenance of the building.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Short-term and restricted investments

Short-term and restricted investments are valued at the lower of cost and market value.

(b) Parliamentary appropriation

The Government of Canada provides funding to the Corporation. The portion of the Parliamentary appropriation used to purchase depreciable capital assets is recorded as deferred capital funding and amortized on the same basis and over the same periods as the related capital assets. The remaining portion of the appropriation is recorded on the statement of operations.

The parliamentary appropriation approved for the period from April 1 to August 31, is in respect of the Government of Canada's fiscal year ending on March 31 of the following year. Accordingly, the portion of the amount received to August 31, which is in excess of 5/12^{ths} of the appropriation, is deferred to the following year. Similarly, the portion of the amount received to August 31, which is less that 5/12^{ths} of the appropriation, is recorded as a receivable.

The difference between the parliamentary appropriation received for payments in lieu of taxes to municipalities and other taxing authorities and the related expense for the year is recorded as either a deferred credit or an account receivable as appropriate.

(c) Inventories

Inventories are valued at cost for restaurant supplies, food and beverages.

(d) Programs in progress

Direct costs, including advances to performing companies and artists related to programs (shows) that will be held after year-end, are deferred, and are charged to expenses in the year in which the programs take place.

(e) Capital assets

Capital assets are recorded at cost net of accumulated amortization. Amortization is calculated using the straight-line method, over the estimated useful lives of the assets as follows:

Equipment	2 to 10 years
Computer software and hardware	3 to 5 years
Leasehold improvements	10 years

(f) Deferred revenue

Funds received in return for future services are deferred. Revenue is recognized in the year that the services are provided.

(g) Contributions
The Corporation follows the deferral method of accounting for contributions.

Contributions externally restricted, and related investment income, are deferred and recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received.

Donations in kind are recorded at estimated fair market value when they are received.

Volunteers contribute a significant number of hours per year. Because of the difficulty of determining their fair value, contributed services are not recognized in these financial statements.

(h) Employee termination benefits
Employees of the Corporation are entitled to specified benefits on termination as provided for under their respective contracts and conditions of employment. The liability for these benefits is recorded as the benefits accrue to the employees.

(i) Operating expenses
Expenses relating to commercial operations and programming do not include costs relating to building and equipment maintenance, and administrative services.

(j) Pension plan
Employees of the Corporation participate in the Public Service Superannuation Plan, administered by the Government of Canada. Contributions to the Plan are required by both the employees and the Corporation on an equal basis. The Corporation's contributions represent the total pension obligation of the Corporation. Contributions in respect of current service are expensed during the year in which service is rendered.

The Corporation is not required under present legislation to make contributions with respect to employees for actuarial deficiencies of the Public Service Superannuation Account.

3. CASH AND SHORT-TERM INVESTMENTS

The Corporation's policy is to invest temporary excess cash in short-term deposit certificates, bonds, and commercial paper with Canadian financial institutions. As at August 31, 1999, cash and short-term investments include bonds and commercial paper of $8,583,326 ($1,096,794 in 1998). The average yield of the portfolio was 4.80% for the year ended August 31, 1999 (4.25% in 1998). The fair value of short-term investments approximates the book value due to their impending maturity.

4. RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments arise from contributions received from individuals and corporate entities for a specified purpose.

5. CONTRIBUTIONS RECEIVABLE

Contributions receivable represent corporate sponsorships and donation pledges for future years. Pledges equal to $145,000 are to be received in the next year with equal payments of $20,000 to be received in each of the subsequent three years. The fair value of contributions receivable is approximately $191,000.

The prior year's contribution receivable from the Alexei Yashin Foundation was written off as the pledge was withdrawn by the donor.

6. CAPITAL ASSETS

	1999			1998
	Cost	Accumulated amortization	Net book value	Net book value
Equipment	$ 6,070,680	$ 4,490,884	$ 1,579,796	$ 1,286,526
Computer software and hardware	4,457,392	2,914,598	1,542,794	1,525,749
Leasehold improvements	27,131,699	23,435,016	3,696,683	4,852,723
	$ 37,659,771	$ 30,840,498	$ 6,819,273	$ 7,664,998

7. DEFERRED CONTRIBUTIONS

	1999	1998
Challenge Fund (Note 10)	$ 349,384	$ —
Pledge from Alexei Yashin Foundation	—	800.000
National Arts Centre Orchestra Trust Fund	33,166	30.567
National Arts Centre Orchestra Tour Fund	80,490	63.964
Piano Fund	49,162	—
Trudi LeCaine Fund	—	437
	$ 512,202	$ 894.968

Changes in the deferred contributions balance are as follows:

	1999	1998
Balance at beginning of year	$ 894,968	$ 98.487
Interest income	7,034	6.454
Donations	417,700	800.527
Amount withdrawn	(800,000)	—
Amount recognized as revenue on the statement of operations	(7,500)	(10.500)
Balance at end of year	$ 512,202	$ 894.968

8. DEFERRED CAPITAL FUNDING

Deferred capital funding represents the unamortized portion of parliamentary appropriations used to purchase depreciable capital assets.

Changes in the deferred capital funding balance are as follows:

	1999	1998
Balance at beginning of year	$ 7,664,998	$ 7.773.305
Appropriations used to purchase depreciable capital assets	1,535,899	2.036.464
Amortization	(2,381,624)	(2.144.771)
Balance at end of year	$ 6,819,273	$ 7.664.998

9. ENDOWMENT FUND

The initial capital of $33.275 for National Arts Centre Orchestra Trust Fund is subject to an externally imposed restriction stipulating that the original capital be maintained permanently. Interest earned during year of $1.775 (1998 — $1.664) is included in deferred contributions.

10. CHALLENGE FUND

During the year, in addition to regular fundraising activities, a special fundraising campaign entitled the Challenge Fund, was undertaken. Information related to this campaign is as follows:

Total funds raised during the campaign	$ 2.161.046
Total direct campaign expenses	(212.186)
Net result of the campaign	$ 1.948.860

Total funds raised, except for deferred contributions as described in Note 7, are included in fundraising revenues for the year. The net result of the campaign, except for contributions receivable as described in Note 5, are, for the most part, included in cash and short-term investments.

11. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters transactions with these entities in the normal course of business.

12. CONTINGENCIES

The Corporation is the claimant or defendant in certain pending claims and lawsuits. In management's opinion, the outcome of these actions is not likely to result in any material liabilities.

13. COMMITMENTS

As at August 31, 1999, there remains $3,867,000 to be paid pursuant to agreements for information technology and telephony services. The future minimum payments are as follows:

	(in thousands of dollars)
1999 — 00	963
2000 — 01	972
2001 — 02	1,019
2002 — 03	898
2003 — 04	15

14. UNCERTAINTY DUE TO THE YEAR 2000

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on or after 1 January 2000 and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

15. COMPARATIVE FIGURES

Certain figures for 1998 have been reclassified to conform to the presentation adopted this year.

SCHEDULE I — SCHEDULE OF REVENUES AND EXPENSES

Commercial Operations for the year ended August 31, 1999

1999	Revenues	Expenses	Net
Restaurants	$ 5,774,912	$ 5,364,915	$ 409,997
Parking Services	2,339,806	486,001	1,853,805
Rental of Halls	1,767,613	998,742	768,871
	$ 9,882,331	$ 6,849,658	$ 3,032,673

1998	Revenues	Expenses	Net
Restaurants	$ 6,262,199	$ 5,874,904	$ 387,295
Parking Services	2,194,564	482,644	1,711,920
Rental of Halls	2,265,373	1,267,020	998,353
	$ 10,722,136	$ 7,624,568	$ 3,097,568

SCHEDULE II — SCHEDULE OF REVENUES AND EXPENSES

Programming for the year ended August 31, 1999

	1999	1998
Revenues		
Music	$ 3,225,014	$ 2,885,039
English Theatre	1,632,790	1,324,466
French Theatre	540,265	422,703
Dance	1,374,407	1,148,884
Festival Canada	—	856,930
Variety, Touring & Other	1,909,380	1,434,783
Youth & Education	322,102	260,138
Community Programming	431,237	19,420
Programming Support	290,381	178,156
	9,725,576	8,530,519
Expenses		
Music	6,901,249	5,777,406
English Theatre	2,457,828	2,368,156
French Theatre	1,459,207	1,348,311
Dance	2,033,835	2,239,858
Festival Canada	—	2,683,270
Variety, Touring & Other	2,410,161	2,144,971
Youth & Education	575,870	492,780
Community Programming	909,425	441,779
Programming Support	3,618,085	3,458,653
	20,365,660	20,955,184
Excess of expenses over revenues	$ 10,640,084	$ 12,424,665

SCHEDULE III — SCHEDULE OF EXPENSES BY TYPE

For the year ended August 31, 1999

	1999	1998
Salaries and benefits	$ 14,405,666	$ 14.803.681
Artistic fees	7,252,472	7.038.630
Payments in lieu of taxes	4,245,000	4.246.814
National Arts Centre Orchestra fees	3,430,809	3.224.289
Contract fees	2,758,437	1.936.047
Amortization	2,381,624	2.144.771
Cost of sales	1,930,477	2.102.053
Advertising	1,916,012	2,962.086
Utilities	1,293,862	1,348.652
Maintenance and repairs	1,104,686	1.251.590
Financial charges	531,607	485.056
Promotion	521,140	504.726
Office expenses	377,442	507.772
Production	321,702	572.302
Professional fees	273,985	260,570
Supplies	257,105	284.326
In-kind contributions of goods and services	197,609	149.459
Telecommunications	195,571	181,327
Staff travel	194,415	256.275
Miscellaneous	182,367	239.443
Equipment	154,692	118,257
Board expenses	110,297	98,257
Insurance	87,013	75.121
Education and training	81,231	48,053
Rental of facilities	63,436	68,383
	$ 44,268,657	$ 44.907.940

National
Capital
Commission

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of the National Capital Commission are the responsibility of management and have been approved by the members of the Commission. These financial statements have been prepared by management in accordance with generally accepted accounting principles and, where appropriate, they include amounts that have been estimated according to management's best judgement.

Management has developed and maintains books of accounts, records, financial and management controls and information systems. These are designed to provide reasonable assurance that the Commission's assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, and that transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *National Capital Act*, and by-laws of the Commission. Internal audits are conducted to assess the performance of information systems and management controls and practices.

The Commission's external auditor, the Auditor General of Canada, has audited the financial statements and has reported on his audit to the Commission and to the Minister of Canadian Heritage.

The members of the Commission carry out their responsibilities for the financial statements principally through the Corporate Audit and Evaluation Committee, which consists of members of the Commission only. The Committee meets periodically with management, as well as with the internal and external auditors, to discuss the results of the audit examinations with respect to the adequacy of internal accounting controls and to review and discuss financial reporting matters. The external and internal auditors have full access to the Corporate Audit and Evaluation Committee, with or without the presence of management.

Marcel Beaudry

Marcel Beaudry
Chairperson

Robin Young
Vice-President, Strategic Planning and
Information Management

June 2, 2000

AUDITOR GENERAL OF CANADA
VÉRIFICATEUR GÉNÉRAL DU CANADA

Auditor's Report

To the Minister of Canadian Heritage

I have audited the balance sheet of the National Capital Commission as at March 31, 2000 and the statements of operations, equity of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Commission that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *National Capital Act*, and the by-laws of the Commission.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 2, 2000

National Capital Commission

BALANCE SHEET AS AT MARCH 31

	(thousands of dollars) 2000	1999
ASSETS		
Current		
Cash and short-term deposits (Note 3)	[illegible]	$ 41,188
Accounts receivable		
Federal government departments and agencies	[illegible]	957
Tenants and others	[illegible]	2,279
Prepaid expenses	[illegible]	2,008
	[illegible]	46,432
Trust Account (Note 4)	[illegible]	4,863
Capital Assets (Note 5)	[illegible]	373,532
	$ 481,162	$ 424,827
LIABILITIES		
Current		
Accounts payable and accrued liabilities		
Federal government departments and agencies	[illegible]	$ 1,408
Others	[illegible]	14,755
Current portion of unsettled expropriations of property and land exchanges	[illegible]	1,618
Current portion of provision for environmental clean-up (Note 8)	306	380
	20,964	18,161
Accrued employee termination benefits	4,606	3,965
Unsettled expropriations of property and land exchanges	3,179	3,161
Deferred insurance proceeds (Note 4)	4,716	4,863
Deferred rent inducement	3,591	3,773
Provision for environmental clean-up (Note 8)	5,066	4,204
	42,122	38,127
Commitments and contingencies (Notes 7 and 8)		
EQUITY OF CANADA	439,040	386,700
	$ 481,162	$ 424,827

The notes are an integral part of the financial statements.

Approved by the Commission

Marcel Beaudry

Marcel Beaudry
Chairperson

Irving Schwartz
Chairperson, Corporate Audit and Evaluation Committee

National Capital Commission

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31

(thousands of dollars)

	2000	1999
INCOME		
Rental operations and easements	$ 13,716	$ 12,611
Interest	3,640	1,419
Net gain on disposal of capital assets	2,456	3,814
Sponsorship		
Cash	727	905
Goods and services	850	479
User access fees	1,127	1,022
Sub-lease, headquarters	1,221	1,275
Other fees and recoveries	3,613	3,154
	27,350	24,679
COST OF OPERATIONS (NOTE 6)		
Planning the National Capital Region	1,946	2,054
Promoting and Animating the National Capital Region	15,888	14,033
Real Asset Management and Development	53,078	51,853
Corporate Services	20,862	22,624
	91,774	90,564
Cost of Operations before parliamentary appropriations	(64,424)	(65,885)
Parliamentary appropriations	53,302	58,614
Net Cost of Operations	$ (11,122)	$ (7,271)

The notes are an integral part of the financial statements.

National Capital Commission

STATEMENT OF EQUITY OF CANADA FOR THE YEAR ENDED MARCH 31

	(thousands of dollars)	
	2000	1999
OPERATIONS		
Balance at beginning of year	[illegible]	$ 357,806
Net cost of operations	[illegible]	(7,271)
Transfer of capital assets from Government of Canada	[illegible]	–
Donation of works of art	[illegible]	–
Parliamentary appropriations to acquire and improve capital assets	[illegible]	33,009
Balance at end of year	[illegible]	383,544
CANADIANA FUND[1]		
Balance at beginning of year	[illegible]	2,908
Donations	[illegible]	248
Balance at end of year	[illegible]	3,156
Total balance at end of year	**$ 439,040**	**$ 386,700**

The notes are an integral part of the financial statements.

[1] The Canadiana Fund was established to build the Crown Collection of antiques and works of art for the official residences.

National Capital Commission

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31

	(thousands of dollars) 2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from parliamentary appropriations for operating activities	$ 52,933	$ 58,614
Cash receipts from rental operations and easements	13,747	12,371
Cash receipts from other operations	5,713	9,022
Cash paid to suppliers and employees	(78,683)	(72,100)
Interest received	2,996	1,241
Cash flows (used in) from operating activities	**(3,294)**	9,148
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases and improvements to capital assets	(32,013)	(31,218)
Proceeds on disposal of capital assets	3,282	5,720
Disbursements for settlement of expropriations of property	(511)	(799)
Disbursements for environmental clean-up	(10)	(361)
Proceeds from sales-type leases		268
Cash flows used in investing activities	**(29,252)**	(26,390)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash receipts from parliamentary appropriations for capital assets	54,099	33,009
Cash receipts for Canadiana Fund	16	6
Cash flows from financing activities	**54,115**	33,015
Increase in cash and short-term deposits	**21,569**	15,773
Cash and short-term deposits at beginning of year	**41,188**	25,415
Cash and short-term deposits at end of year	**$ 62,757**	$ 41,188

The notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS AS AT MARCH 31, 2000

1. AUTHORITY AND OBJECTIVES

The National Capital Commission was established in 1959 under the terms of the *National Capital Act* (1958). The Commission is an agent Crown corporation without share capital named in Part I of Schedule III to the *Financial Administration Act* and is not subject to the requirements of the *Income Tax Act*. The objects and purposes of the Commission, as stated in the *National Capital Act* as amended in 1988, are to:

(a) prepare plans for and assist in the development, conservation and improvement of the National Capital Region in order that the nature and character of the seat of the Government of Canada may be in accordance with its national significance; and

(b) organize, sponsor or promote such public activities and events in the National Capital Region as will enrich the cultural and social fabric of Canada, taking into account the federal character of Canada, the equality of status of the official languages of Canada and the heritage of the people of Canada.

As well as these objectives, in 1988, the Act gave the Commission an important additional power: to coordinate the policies and programs of the Government of Canada respecting the organization, sponsorship or promotion by departments of public activities and events related to the National Capital Region.

The Commission is also responsible for the management and maintenance of the assets of the official residences located in the National Capital Region. The Commission created the Canadiana Fund to encourage Canadians to participate in the development of the official residences as shrines of Canadian history and achievement.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with generally accepted accounting principles and reflect the following policies:

(a) Capital Assets

Capital assets are generally recorded at historical cost. Property acquired for a nominal value or by donation is recorded, as contributed capital assets, at market value at time of acquisition or at the nominal value if the market value cannot reasonably be determined. Antiques or works of art donated to the Canadiana Fund and the Commission are recorded, as contributed capital assets, at market value at time of the donation. If the market value cannot reasonably be determined, the transaction is recorded at nominal value. Improvements that extend the useful life of buildings and equipment are capitalized.

(b) Amortization

Amortization of assets in use is charged to operations in equal annual amounts based on the cost of the assets and their estimated useful life as follows:

Buildings	[redacted]
Parkways, roadways, and bridges	[redacted]
Park landscaping and improvement	[redacted]
Leasehold improvements	[redacted]
Machinery and equipment	[redacted]
Office furniture	[redacted]
Office equipment	[redacted]
Vehicles	[redacted]
Antiques and works of art	[redacted]
Computer and communications equipment	[redacted]

(c) Non-Monetary Transactions

When an exchange of assets takes place and there is a change in the purpose for which the asset is held, the transaction is recorded at the fair market value of the asset received. If there is no change in purpose for which the asset is held, the transaction is recorded at the carrying value of the asset given up. When there is an exchange of goods or services in kind, the transaction is recorded at the fair market value of the goods or services received. If the fair market value of the goods or services given up is more determinable, that fair market value will be used to record the transaction.

(d) Pension Plan

Commission employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. The Commission's contributions to the plan are limited to an amount equal to the employees' contributions on account of current and certain past service. These contributions represent the total pension obligations of the Commission and are charged to operations on a current basis. The Commission is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(e) Employee Termination Benefits

Severance pay generally accrues to employees over their service period and is payable on their separation or retirement. The liability for these benefits is recorded in the accounts as the benefits accrue to the employees.

(f) Deferred Rent Inducement

The Commission currently leases its headquarters office space. Moving expenses and major leasehold improvements incurred by the lessor to accommodate Commission needs have been recorded as of the effective date of the lease and are amortized over the term of the lease.

(g) Parliamentary Appropriations
Parliamentary appropriations for operating expenditures and for grants and contributions to other levels of government and other authorities are included on the statement of operations in the year for which they were approved. Parliamentary appropriations to acquire and improve capital assets are credited to the equity of Canada as they represent the permanent investment of Canada in the Commission.

(h) Workers' Compensation
The Commission assumes all risks for workers' compensation claims. The cost of claims resulting from injuries on duty are recorded in the year when compensation payments are due.

(i) Provision for Environmental Clean-up
The Commission records a provision for environmental clean-up in situations where the Commission is obligated or is likely to be obligated to incur costs related to risk management and to the remediation and removal of contaminated material from environmentally contaminated sites, and the cost can be reasonably estimated following a detailed environmental assessment. The cost of remediation varies depending on the use of soil.

(j) Unsettled Expropriations of Property
Unsettled expropriations of property are recorded on the basis of real property appraisal performed by certified appraisers and other domain experts in addition to other expenses incurred during the expropriation process.

3. CASH AND SHORT-TERM DEPOSITS

The Commission's policy is to invest temporary excess cash in short-term deposit certificates, Treasury bills, and banker's acceptances with Canadian financial institutions. These are recorded at cost. As at March 31, 2000, cash and short-term deposits include deposit certificates and banker's acceptances at a weighted average interest rate of 5.3 percent (4.9 percent in 1999). The fair value of cash and short-term deposits is equal to the book value due to the maturity date.

Cash and short-term deposits at year-end amounted to $62.757 million ($41.188 million in 1999). Included in this cash balance are funds that are segregated:

(a) cash donations received for the Canadiana Fund in the amount of $28,062 ($27,809 in 1999);

(b) funds of $29.819 million (nil in 1999) for the purpose of acquiring and trading lands along the Sparks Street Mall, in Ottawa, pursuant to Governor in Council authority;

(c) funds, in the amount of $13.548 million ($19.261 million in 1999) as follows:

    (i) funds of $4.953 million ($10.291 million in 1999) for the Champlain Bridge rehabilitation; and

    (ii) funds of $8.595 million ($8.97 million in 1999) to acquire real property or to support other major programs, as may be authorized by Treasury Board and Governor in Council.

Details of transactions are highlighted in the following analysis:

	(thousands of dollars)		
	Champlain Bridge	Others	Total
Cash available at beginning of year	[redacted]	$ 8,970	[redacted]
Proceeds on disposal	[redacted]	3,256	[redacted]
Acquisition/disposal expenses	[redacted]	(422)	[redacted]
Interest	[redacted]	497	[redacted]
Acquisitions and improvements	[redacted]	(3,706)	[redacted]
Cash available at end of year	[redacted]	$ 8,595	[redacted]

4. TRUST ACCOUNT

The Commission has segregated funds received from an insurance company in respect of a claim for damages arising from injuries sustained in an accident by an NCC employee. These funds have been paid to the Commission as it will be responsible to pay the continuing costs relating to this claim settlement. Future costs were assessed in an actuarial study completed in 1991.

The funds received are managed by an independent investment management firm. Revenues earned on the portfolio of investments remained in the Trust Account and are deferred until expenses are incurred.

As at March 31, 2000, the portfolio's overall rate of return was 1.2 percent (7.3 percent in 1999). All investments were made in accordance with the following strategy: short-term Canadian notes and Treasury bills rated R1 by the Dominion Bond Rating Service and A1+ or A1 by the Canadian Bond Rating Service, Canadian bonds and debentures rated AAA, AA and A by the Dominion Bond Rating Service or A++, A+ and A by the Canadian Bond Rating Service, securities of the Government of Canada or of a provincial government to a maximum of 30 percent of the total market value of the portfolio.

As at March 31, 2000 and 1999, the fair value of the investments was approximately equal to the book value.

5. CAPITAL ASSETS

	March 31, 2000 (thousands of dollars)						March 31, 1999 (thousands of dollars)
	Land	Buildings, Works and Infrastructure	Equipment	Total Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land and Buildings, Works and Infrastructure[1]							
Greenbelt	[illegible]	$ 36,136		$ 66,234	[illegible]	$ 43,113	[illegible]
Gatineau Park	[illegible]	16,195		35,757	[illegible]	26,925	[illegible]
Parkways	[illegible]	104,566		141,331	[illegible]	91,728	[illegible]
Parks	[illegible]	50,840		77,997	[illegible]	54,454	[illegible]
Bridges and approaches	[illegible]	43,768		45,509	[illegible]	24,705	[illegible]
Historical properties	[illegible]	43,277		43,435	[illegible]	18,120	[illegible]
Recreational facilities	[illegible]	19,767		37,295	[illegible]	26,653	[illegible]
Rental properties	[illegible]	52,129		96,144	[illegible]	72,851	[illegible]
Development properties	[illegible]	5,100		21,847	[illegible]	18,688	[illegible]
Unsettled expropriations and land exchanges	[illegible]			3,179		3,179	[illegible]
Administrative and service buildings	[illegible]	19,858		24,437	[illegible]	10,890	[illegible]
	[illegible]	391,636		593,165	[illegible]	391,306	[illegible]
Less: Provision for transfers[2]	[illegible]			(1,838)		(1,838)	[illegible]
	[illegible]	391,636		591,327	[illegible]	389,468	[illegible]
Leasehold Improvements		9,334		9,334	[illegible]	7,175	[illegible]
Equipment							
Machinery and equipment			[illegible]	8,637	[illegible]	774	[illegible]
Office furniture and equipment			[illegible]	4,316	[illegible]	1,364	[illegible]
Vehicles			[illegible]	1,016	[illegible]	447	[illegible]
Computer and communications equipment			[illegible]	10,528	[illegible]	1,231	[illegible]
Antiques and works of art							
Canadiana Fund			[illegible]	3,620		3,620	[illegible]
Other			[illegible]	921		921	[illegible]
			[illegible]	29,038	[illegible]	8,357	[illegible]
Total	$199,691	$400,970	$ 29,038	$629,699	[illegible]	$405,000	[illegible]

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1. The total cost of land and buildings, works and infrastructure includes $23 million of construction in progress.
2. Provision for transfers pertains to property to be transferred in accordance with agreements with the Province of Quebec. This includes lands to be given for the approaches to the Macdonald-Cartier Bridge and to be used as a right-of-way for Highway 550, in exchange for other lands.

6. INFORMATION ON THE STATEMENT OF OPERATIONS

Sector Definitions and Objectives

The Commission uses four sectors to structure its activities. Short-, medium- and long-term objectives linked to the mandate and mission have been developed for each one. The following are the long-term objectives established for each sector:

PLANNING THE NATIONAL CAPITAL REGION

To guide the physical development and use of federal lands, to coordinate and achieve excellence in design, and to plan development that is appropriate to the role and significance of the Capital of Canada.

PROMOTING AND ANIMATING THE NATIONAL CAPITAL REGION

To increase awareness of the Capital Region outside the National Capital Region through national marketing campaigns, communications contacts (broadcasting) and outreach activities, and to present the Capital to visitors as a place to experience Canadian heritage, culture and achievements through varied services, events and programs.

REAL ASSET MANAGEMENT AND DEVELOPMENT

To manage and protect physical assets of national significance on behalf of future generations of Canadians.

CORPORATE SERVICES

To promote efficient and productive use of resources through the centralized provision of corporate services to all of the business lines.

SUMMARY OF EXPENSES BY MAJOR CLASSIFICATION

	(thousands of dollars) 2000	1999
Salaries and employee benefits	[redacted]	$ 24,928
Goods and services	[redacted]	37,904
Goods and services in kind	[redacted]	479
Payments in lieu of municipal taxes	[redacted]	12,769
Amortization	[redacted]	14,484
	[redacted]	$ 90,564

7. COMMITMENTS

(a) The Commission has entered into agreements for services, leases of equipment and operating leases for office accommodations. The agreements have different termination dates, with the latest ending in 2020, and total $151.9 million ($125.9 million in 1999). The Commission has also privatized the management and maintenance of a portion of its lands and properties as part of the federal government's *Program Review*. Contracts totalling $15.6 million ($18.4 million in 1999) have been awarded for these functions; these contracts will terminate in 2004–05.

Minimum annual payments under these agreements for the next five years are approximately as follows:

	(thousands of dollars)
2000–01	[redacted]
2001–02	[redacted]
2002–03	[redacted]
2003–04	[redacted]
2004–05	[redacted]

(b) The Commission has entered into contracts for capital expenditures of approximately $30.9 million. Payments under these contracts are expected to be made in 2000–01, 2001–02 and 2002–03.

8. CONTINGENCIES

(a) Claims

Claims have been made against the Commission totalling approximately $18.9 million ($17.6 million in 1999), excluding interest and other costs, for alleged damages and other matters. The final outcome of these claims is not determinable and, accordingly, these items are not recorded in the accounts. In the opinion of management, the position of the Commission is defensible. Settlements, if any, resulting from the resolution of these claims will be accounted for in the year in which the liability is determined.

(b) Environmental Protection

As part of the Environmental Management Framework and the Acquisition and Disposal Program, the Commission has prioritized 1,566 property assets that qualify for environmental assessment. Following a preliminary assessment of 330 of these property assets, more detailed studies were conducted on a number of these properties to determine the degree of remediation required. Based on the detailed studies conducted thus far, the Commission assesses the liability and the contingency for environmental clean-up at $5.5 million ($4.6 million in 1999) and at $44.7 million ($28.4 million in 1999) respectively. The contingency reflects the suspected costs or potential additional costs associated with situations where it is uncertain whether the Commission is obligated or it is unlikely that the Commission will incur full remediation costs.

9. RELATED PARTY TRANSACTIONS

The Commission is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations and is mainly financed by the Parliament of Canada.

In addition to the related party transactions described below, and those disclosed elsewhere in these financial statements, the Commission also enters into transactions with Crown entities. In the normal course of business and on normal trade terms applicable to all individuals and enterprises, the Commission incurred expenses totalling $8.88 million ($4.22 million in 1999) for utilities, rental of space, asset and service purchases from other government departments and agencies, and earned revenues totalling $6 million ($4.49 million in 1999) from services rendered, rental operations and sales of assets to other government departments and agencies.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

In addition to what has already been described in Notes 3, 4 and 6 relating to this topic, the fair value of accounts receivable and accounts payable and accrued liabilities approximates the book value due to their impending maturity. The fair value of accrued employee termination benefits, unsettled expropriations of property and land exchanges and deferred rent inducement also approximates the book value.

11. PAY EQUITY

The Treasury Board Secretariat and the Public Service Alliance of Canada reached an agreement on the implementation of the Canadian Human Rights Tribunal pay equity ruling of July 29, 1998. Although the Commission is now a separate employer, the recent ruling and the joint pay equity agreement between Treasury Board and the Public Service Alliance of Canada applies to employees and former employees of the Commission from March 1985 to January 1, 1994 when the Treasury Board was the employer. Any amounts paid or owing to these employees for that period are the responsibility of the Treasury Board Secretariat. As a result, no amounts have been accrued as an obligation of the Commission. As a separate employer since January 1, 1994, the Commission is not party to this ruling or the agreement between the Treasury Board Secretariat and the Public Service Alliance of Canada. Management is of the opinion that any assessment of the impact of this settlement on the Commission is not determinable at this time.

12.COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

National
Gallery
of Canada

Financial Statements

Management's responsibility for financial reporting

The accompanying financial statements of the National Gallery of Canada (the Gallery) and all information in this annual report are the responsibility of management. The financial statements include some amounts that are necessarily based on management's estimates and judgement.

The financial statements have been prepared in accordance with generally accepted accounting principles. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, proper records are maintained and transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Museums Act*, and the by-laws of the Gallery.

The Board of Trustees is responsible for ensuring that management fulfils its responsibilities for maintaining adequate control systems and the quality of financial reporting. The Audit and Evaluation Committee of the Board of Trustees meets regularly with management and internal and external auditors to discuss auditing, internal controls and other relevant financial matters. The Committee reviews the financial statements and presents its recommendation to the Board of Trustees. The Board of Trustees approves the financial statements.

The external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing his report thereon to the Minister of Canadian Heritage.

J. Lavell

Pierre Théberge, C.Q.
Director

James Lavell, CA
Deputy Director,
Administration and Finance

Ottawa, Canada
2 June 2000

AUDITOR GENERAL OF CANADA
VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Canadian Heritage

I have audited the balance sheet of the National Gallery of Canada as at 31 March 2000 and the statements of operations, changes in equity of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Gallery's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Gallery as at 31 March 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Gallery that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Museums Act* and the by-laws of the Gallery.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
2 June 2000

Balance Sheet

as at 31 March 2000 (in thousands of dollars)

Assets	2000	1999
Current		
Cash and investments (Note 3)	$ 3,845	$ 8,232
Accounts receivable	4,556	1,034
Inventories	854	850
Prepaid expenses	928	190
	10,183	10,306
Restricted cash and investments (Note 3)	1,373	1,504
Collection (Note 4)	1	1
Capital assets (Note 5)	8,760	8,919
	$ 20,317	$ 20,730

Liabilities		
Current		
Accounts payable and accrued liabilities (Note 6)	$ 3,187	$ 4,957
Special Purpose Account (Note 7)	413	523
	3,600	5,480
Accrued employee termination benefits	1,537	1,388
Deferred contributions (Note 8)	808	851
Deferred capital funding (Note 9)	11,995	8,919
Total liabilities	17,940	16,638
Endowments		
Endowments (Note 10)	128	126
Equity of Canada		
Internally restricted	24	4
Unrestricted	2,225	3,962
Total equity of Canada	2,249	3,966
	$ 20,317	$ 20,730

The accompanying notes form an integral part of the financial statements.

Approved by the Board of Trustees:

Chairperson

Vice-Chairperson

Statement of Operations

for the year ended 31 March 2000 (in thousands of dollars)

	2000	1999
Expenses		
Collections and Research		
Operations	**$ 4,188**	$ 4,447
Art acquisitions (Note 4)	**2,960**	5,489
Total - Collections and Research	**7,148**	9,936
Outreach	**200**	112
Public Affairs	**6,702**	6,427
Development	**3,799**	4,371
Exhibitions and Collections Management	**7,198**	6,718
Facilities	**13,583**	15,555
Administration	**3,823**	4,515
Total expenses (Schedule 1)	**42,453**	47,634
Less: Operating revenue and contributions (Schedule 2)	**7,367**	8,976
Net cost of operations before government funding	**35,086**	38,658
Parliamentary appropriations		
For operating and capital expenses		
Operating and capital expenditures	**33,273**	31,113
Appropriations deferred for the purchase of depreciable capital assets	**(4,544)**	(2,523)
Amortization of deferred capital funding	**1,468**	1,372
	30,197	29,962
For the purchase of objects for the collection (Note 7)		
Current year	**3,000**	3,000
Drawn from previous years	**172**	310
	3,172	3,310
Total - parliamentary appropriations	**33,369**	33,272
Results of operations after government funding	**$ (1,717)**	$ (5,386)

The accompanying notes form an integral part of the financial statements.

Statement of Changes in Equity of Canada

for the year ended 31 March 2000 (in thousands of dollars)

	Internally Restricted	Unrestricted	2000 Total	1999 Total
Balance at beginning of year	$ 4	$ 3,962	**$ 3,966**	$ 9,352
Results of operations after government funding		(1,717)	**(1,717)**	(5,386)
Transfers between funds:				
Acquisition of works of art	(81)	81		
Contributions	100	(100)		
Interest	1	(1)		
Balance at end of year	$ 24	$ 2,225	**$ 2,249**	$ 3,966

The accompanying notes form an integral part of the financial statements.

Statement of Cash Flows

for the year ended 31 March 2000 (in thousands of dollars)

	2000	1999
Operating activities:		
Results of operations after government funding	**$ (1,717)**	$ (5,386)
Items not affecting cash and investments		
Amortization	**1,468**	1,372
Net internally restricted transactions	**(20)**	1,737
Accrued employee termination benefits	**149**	172
Loss on disposal of capital assets	**12**	14
	(108)	(2,091)
Decrease (increase) in non-cash working capital components	**(6,034)**	2,045
	(6,142)	(46)
Financing activity:		
Capital funding from the Government of Canada	**4,544**	2,523
Amortization of deferred capital funding	**(1,468)**	(1,372)
	3,076	1,151
Investing activities:		
Purchase of capital assets	**(1,326)**	(2,543)
Proceeds from disposal of capital assets	**5**	6
	(1,321)	(2,537)
Decrease in cash and investments during the year	**(4,387)**	(1,432)
Cash and investments at beginning of year	**8,232**	9,664
Cash and investments at end of year	**$ 3,845**	$ 8,232

The accompanying notes form an integral part of the financial statements.

Notes to Financial Statements

31 March 2000

1. Authority, Objectives and Activities

The National Gallery of Canada (the Gallery) was established on 1 July 1990 by the *Museums Act* as a Crown corporation under Part I of Schedule III to the *Financial Administration Act*.

The Gallery's mandate as stated in the *Museums Act* is to develop, maintain and make known throughout Canada and internationally, a collection of works of art, both historic and contemporary, with special but not exclusive reference to Canada, and to further knowledge, understanding and enjoyment of art in general among all Canadians. The Gallery's operations include its affiliate, the Canadian Museum of Contemporary Photography (CMCP).

The Gallery's operations are divided into 7 mutually supportive activities which work together to meet all aspects of its mandate. These activities are:

Collections and Research

To acquire, preserve, research and record historic and contemporary works of art, both national and international, to represent Canada's visual arts heritage and to use in its programs.

Outreach

To develop new partnerships for greater access to and dissemination of the Gallery's collection, including curators-in-residence, co-acquisitions and long-term loans, as well as travelling exhibitions, new communications.

Public Affairs

To further knowledge, understanding and enjoyment of the visual arts among all Canadians and to make the collections known both in Canada and abroad.

Development

To identify new sources of funds for the Gallery and its affiliate in order to increase revenues from non-governmental sources.

Exhibitions and Collections Management

To develop a program of travelling exhibitions and to manage exhibitions and installations presented at the Gallery, and to oversee documentation of the Gallery's collections.

Facilities

To provide a secure and suitable facilities for the preservation and exhibition of the national collections of art, the Library and the Archives, that are readily accessible to the public.

Administration

To provide direction, control and effective development and administration of resources.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles. The significant accounting policies are:

(a) Inventories

Inventories are valued at the lower of cost and market value. In the case of books and publications, cost is written down over a maximum of three years to take into account obsolescence.

(b) Capital Assets

Capital assets are recorded at cost and amortized using the straight-line method over their estimated useful lives as follows:

Equipment and furniture	5 to 12 years
Leasehold improvements	25 years
Building improvements	25 years
Vehicles	5 years

The original cost of the buildings occupied by the Gallery is not shown in the financial statements. The buildings are owned by the Government of Canada.

(c) Collection

The Gallery holds a collection of works of art for the benefit of Canadians, present and future. The collection is shown as an asset at a nominal value of $1,000 due to the practical difficulties of determining a meaningful value for these assets. Works of art purchased for the collection of the Gallery are recorded as an expense in the year of acquisition. Works of art donated to the Gallery are not recorded in the books of account.

(d) Pension Plan

The employees of the Gallery participate in the Public Service Superannuation Plan administered by the Government of Canada. The employees and the Gallery contribute equally to the cost of the Plan. This contribution represents the total pension obligation of the Gallery. Contributions in respect of current service are expensed during the year in which services are rendered. Admissible past service contributions are expensed when paid.

The Gallery is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(e) Employee Termination Benefits

On termination of employment, employees of the Gallery are entitled to certain benefits provided for under their collective agreements and their conditions of employment. The cost of these benefits is expensed in the year in which the benefits are earned.

(f) Parliamentary Appropriations

The Gallery receives funding from the Government of Canada. The portion of the parliamentary appropriations used to purchase depreciable capital assets is recorded as deferred capital funding and amortized on the same basis and over the same periods as the related capital assets. The remaining portion of the appropriations is recorded on the statement of operations.

Parliamentary appropriations for the purchase of objects for the collection are initially recorded in the Special Purpose Account in the year of entitlement and are recognized in the statement of operations at the time the acquisitions are made.

(g) Contributions

The Gallery follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions and related investment income are deferred and recognized as revenue in the year in which the related expenses are incurred. Endowment contributions are recorded as endowments on the balance sheet. The investment income arising from such contributions is deferred and recognized as revenue in the year in which the related expenses are incurred.

The Board of Trustees has directed that certain unrestricted contributions and interest income arising from such contributions be internally restricted for the purpose of acquiring objects for the collection and related activities.

Contributed services are recorded at their fair value at the date they are received by the Gallery. Volunteers contribute a significant number of hours per year. Because of the difficulty of determining their fair value, their contributed services are not recognized in these financial statements.

(h) Bookstore and Publishing

Expenses for the bookstore and publishing are included in operating expenses.

3. Cash and Investments

The Gallery makes short term, low risk investments in the money market. These investments consist of a mix of Bankers' Acceptances and Money Market Mutual Funds. The portfolio yielded an average return of 4.81% (4.60% in 1998-99). The carrying value of these investments approximates their fair market value.

	2000	1999
	(in thousands of dollars)	
The balances at year-end are:		
Cash and Investments		
Cash	$ 835	$ 4,229
Money market investments	3,010	4,003
	$ 3,845	$ 8,232
Restricted Cash and Investments for:		
Special Purpose Account		
Cash	$ 13	$ 77
Money market investments	400	446
	413	523
Deferred contributions, endowments and internally restricted funds		
Cash	160	(275)
Money market investments	800	872
Receivable - Government of Canada	-	384
	960	981
	$ 1,373	$ 1,504

4. Collection

The Gallery has an extensive collection of visual arts, particularly Canadian art. The Gallery collection comprises some 35,000 works of art made up of 48,600 component pieces. In addition, CMCP has 160,000 pieces in its collection. The main collecting areas are:

- Canadian Art, including Inuit Art
- Contemporary Art
- American, European and Asian Art
- 20th Century Modern Art
- Photographs
- Prints and Drawings

The Gallery acquires works of art by purchase, gift and bequest. Acquisitions in the year are as follows:

	2000	1999
	(in thousands of dollars)	
Purchase from Special Purpose Account	$ 2,876	$ 3,310
Purchase from internally restricted funds	81	2,178
Purchase from deferred contributions	3	1
Total purchases	2,960	5,489
Gifts or bequests, at fair market value	2,612	15,435
	$ 5,572	$ 20,924

5. Capital Assets

	2000			1999
	Cost	Accumulated amortization	Net book Value	Net book Value
	(in thousands of dollars)			
Equipment and furniture	$ 16,862	$ 13,923	$ 2,939	$ 3,558
Leasehold improvements	3,981	1,274	2,707	2,866
Building improvements	3,814	737	3,077	2,476
Vehicles	135	98	37	19
	$ 24,792	$ 16,032	$ 8,760	$ 8,919

6. Accounts Payable and Accrued Liabilities

	2000	1999
	(in thousands of dollars)	
Trade	$ 1,852	$ 3,106
Due to government departments and Crown corporations	482	959
Accrued salaries and benefits	853	892
	$ 3,187	$ 4,957

7. Special Purpose Account - Purchase of objects for the collection

Each year, the Gallery receives a $3,000,000 appropriation for the purchase of objects for the collection. The Gallery accumulates these funds, as well as the interest thereon, in a special purpose account which it uses to acquire, when opportunities arise, historically important, unique and high quality works that strengthen the collection.

	2000	1999
	(in thousands of dollars)	
Balance at beginning of year	$ 523	$ 737
Parliamentary appropriation	3,000	3,000
Interest	62	96
Total available	3,585	3,833
Purchase of objects	(2,876)	(3,310)
Related acquisition costs	(296)	-
Balance at end of year	$ 413	$ 523

8. Deferred Contributions

Deferred contributions represent the unrecognized portion of externally restricted contributions and investment income to be used for purchases of works of art or other specific activities such as exhibitions, publications, education programs or research as directed by the contributor.

The following summarizes the transactions for the year:

	2000	1999
	(in thousands of dollars)	
Balance at beginning of year	**$ 851**	$ 1,140
Add receipts for the year		
Interest	**39**	77
Gifts and bequests	**114**	177
	153	254
Less disbursements for the year:		
Purchase of objects for the collection	**3**	1
Educational project	**-**	458
Transfer to the NGC Foundation at the request of donor	**100**	-
Other	**93**	84
	196	543
Balance at end of year	**$ 808**	$ 851

9. Deferred Capital Funding

Deferred capital funding represents the unamortized portion of parliamentary appropriations used to or to be used to purchase depreciable capital assets.

	2000	1999
	(in thousands of dollars)	
Balance at beginning of year	$ 8,919	$ 7,768
Appropriations received in the current year to purchase depreciable capital assets	1,309	2,523
Appropriations received in the current year to purchase depreciable capital assets in future periods	3,235	-
Amortization	(1,468)	(1,372)
Balance at end of year	$ 11,995	$ 8,919

10. Endowments

Endowments consist of restricted donations received by the Gallery. The endowment principal is required to be maintained intact. The investment income generated from endowments is treated as a deferred contribution and must be used in accordance with the various purposes established by the donors. The Gallery ensures that all funds with a restricted purpose are expended for the purpose for which they were provided.

	2000	1999
	(in thousands of dollars)	
Balance at beginning of the year	$ 126	$ 126
Receipts for year, gifts and bequests	2	-
Balance at end of year	$ 128	$ 126

11. Commitments

As at 31 March 2000, there remains $13,183,000 to be paid pursuant to various agreements. The major portion relates to the remainder of a 49 year lease with the National Capital Commission for the CMCP facility. The future minimum payments are as follows:

	(in thousands of dollars)
2000-01	**$ 3,705**
2001-02	**468**
2002-03	**326**
2003-04	**326**
2004-42	**8,358**

12. Contingent Liabilities

In 1997, Revenue Canada challenged certain Goods and Services Tax (GST) Input Tax Credits claimed by the Gallery since October 1993. The issue revolves around whether the Gallery's free general admission policy, which started in October 1993, constitutes an "exempt supply" under the *Excise Tax Act* and whether the associated Input Tax Credits should be consequently disallowed. Because of the multiple unresolved issues, it is still not clear as to whether Revenue Canada will proceed with an assessment and, if so, on what basis.

13. Related Party Transactions

The Gallery is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Gallery enters into transactions with these entities in the normal course of business. Due to a change in Treasury Board policy in 1999-2000, Public Works and Government Services Canada paid approximately $1,200,000 (nil in 1998-99) on the Gallery's behalf for payments in lieu of taxes. This amount is not included in the Gallery's expenditures.

14. Foundation

In 1997-98, the National Gallery of Canada Foundation was incorporated under the *Canada Corporations Act*. The Foundation is a separate legal entity whose purpose is to raise funds for the sole benefit of the Gallery. As at 31 March 2000, the Foundation has raised $940,000 to date in endowment funds ($535,000 as at 31 March 1999). During 1999-2000, the Gallery provided administrative personnel and free facilities. The Foundation's operating expenses amounted to $150,000 in 1999-2000 ($8,000 in 1998-1999) of which $83,000 was funded by the Gallery (nil in 1998-1999).

15. Comparative Figures

Certain reclassifications have been made to the 1998-99 comparative figures to conform with the current year's presentation.

Schedule of expenses

for the year ended 31 March 2000 (in thousands of dollars)

Schedule 1

	2000	1999
Salaries and employee benefits	**$ 14,383**	$ 14,361
Payments in lieu of taxes	**4,049**	5,177
Professional and special services	**3,762**	4,824
Repairs and upkeep of building and equipment	**3,042**	3,450
Purchase of works of art for the collection	**2,960**	5,489
Utilities, materials and supplies	**2,681**	3,113
Protective services	**2,314**	2,632
Cost of goods sold - bookstore and publishing	**1,942**	2,208
Amortization	**1,468**	1,372
Advertising	**1,389**	1,078
Freight, cartage and postage	**1,155**	852
Travel	**1,143**	1,135
Publications	**871**	679
Communications	**386**	336
Rent	**325**	329
Rentals of equipment	**300**	214
Library purchases	**226**	264
Fellowships	**39**	66
Miscellaneous	**18**	55
	$ 42,453	$ 47,634

Schedule of operating revenue and contributions

for the year ended 31 March 2000 (in thousands of dollars)

Schedule 2

	2000	1999
Operating		
Bookstore and publishing	$ 2,577	$ 3,209
Admissions	1,193	1,603
Sponsorships	686	347
Parking	589	602
Rental of public spaces	469	506
Memberships	464	403
Interest	309	491
Travelling exhibitions	291	174
Art loans - recovery of expenses	252	140
Audio guides	123	364
Educational services	106	86
Food services	30	41
Other	55	57
	7,144	8,023
Contributions	223	953
	$ 7,367	$ 8,976

National
Museum
# of Science
and Technology
Corporation

FINANCIAL STATEMENTS

Management's Responsibility for Financial Statements

The financial statements contained in this annual report have been prepared by Management in accordance with generally accepted accounting principles, and the integrity and objectivity of the data in these financial statements are Management's responsibility. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the financial statements.

In support of its responsibility, Management has developed and maintains books of account, records, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of financial information, that assets are safeguarded and controlled, and that transactions are in accordance with the *Financial Administration Act* and regulations, as well as the *Museums Act* and the by-laws of the Corporation.

The Board of Trustees is responsible for ensuring that Management fulfils its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee, which includes a majority of members who are not officers of the Corporation. The Committee meets with Management and the independent external auditor to review the manner in which these groups are performing their responsibilities and to discuss auditing, internal controls, and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditor and has submitted its report to the Board of Trustees. The Board of Trustees has reviewed and approved the financial statements.

The Corporation's external auditor, the Auditor General of Canada, audits the financial statements and reports to the Minister responsible for the Corporation.

Geneviève Sainte-Marie
Director

GJParsons

Graham Parsons
Director General, Corporate Services

June 9, 2000

AUDITOR GENERAL OF CANADA VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Canadian Heritage

I have audited the balance sheet of the National Museum of Science and Technology as at March 31, 2000 and the statements of operations and equity of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Museums Act* and the by-law of the Corporation.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 9, 2000

National Museum of Science and Technology

BALANCE SHEET

as at March 31, 2000

	2000	1999
	(in thousands of dollars)	
Assets		
Current		
Cash and short-term investments (Note 3)	$ 2,331	$ 3,128
Accounts receivable – government departments	452	361
– others	262	232
Inventories (Note 4)	362	402
Prepaid expenses	191	23
	3,598	4,146
Restricted cash and investments (Note 5)	231	189
Collection (Note 6)	1	1
Capital assets (Note 7)	8,883	7,949
	$ 12,713	$ 12,285
Liabilities and Equity of Canada		
Current		
Accounts payable and accrued liabilities		
– government departments	$ 180	$ 224
– others	1,604	1,487
Current portion of accrued employee termination benefits	32	29
Deferred revenues	43	777
	1,859	2,517
Accrued employee termination benefits	1,258	1,022
Other deferred revenues (Note 8)	231	189
Deferred capital funding (Note 10)	8,883	7,949
	12,231	11,677
Equity of Canada	482	608
	$ 12,713	$ 12,285

The accompanying notes and schedule form an integral part of the financial statements.

Approved by the Board of Trustees

Chairman

Chairman, Audit Committee

National Museum of Science and Technology

STATEMENT OF OPERATIONS AND EQUITY OF CANADA

for the year ended March 31, 2000

	2000	1999
	(in thousands of dollars)	
Revenue		
Cost recoveries:		
Admission		
Canada Science and Technology Museum	**$ 617**	$ 718
Canada Aviation Museum	**244**	234
Canada Agriculture Museum	**117**	105
Other	**920**	833
Commercial operations		
Boutiques	**812**	905
Food Services	**37**	314
Other	**415**	883
Corporate development	**355**	417
Interest	**178**	175
Total revenue	**3,695**	4,584
Expenses (Schedule)		
Management of the collection	**6,049**	6,691
Management of public facilities and programs:		
Canada Science and Technology Museum	**6,675**	7,160
Canada Aviation Museum	**3,855**	3,929
Canada Agriculture Museum	**1,797**	1,015
Support activities	**4,222**	3,929
Amortization of capital assets	**1,259**	1,151
Total expenses	**23,857**	23,875
Net result of operations before government funding	**(20,162)**	(19,291)
Parliamentary appropriation (Note 12)	**20,036**	20,007
Net (loss) income	**$ (126)**	$ 716
Equity of Canada at the beginning of the year	**608**	(108)
Equity of Canada at the end of the year	**$ 482**	$ 608

The accompanying notes and schedule form an integral part of the financial statements.

National Museum of Science and Technology

STATEMENT OF CASH FLOWS

for the year ended March 31, 2000

	2000	1999
	(in thousands of dollars)	
Cash flows from operations		
Net (loss) income	**($ 126)**	$ 716
Adjustments for non cash items		
Amortization of capital assets	**1,259**	1,151
Amortization of deferred capital funding	**(1,259)**	(1,151)
Contributions recognized as revenue	**(55)**	(39)
	(181)	677
Change in non cash operating assets and liabilities	**(908)**	(1,154)
Change in accrued termination benefits	**237**	79
Total cash flows from operations	**(852)**	(398)
Cash flows from investing activities		
Acquisition of capital assets	**(2,197)**	(1,106)
Increase in restricted cash and investments	**(41)**	(32)
Total cash flows from investing activities	**(2,238)**	(1,138)
Cash flows from financing activities		
Funding for the acquisition of capital assets	**2,197**	1,106
Restricted contributions and related investments income	**96**	71
Total cash flows from financing activities	**2,293**	1,177
Increase (decrease) in cash	**(797)**	(359)
Cash and short-term investments at the beginning of the year	**3,128**	3,487
Cash and short-term investments at the end of the year	**$ 2,331**	$ 3,128

The accompanying notes and schedule form an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2000

1. Authority, mandate and operations

The National Museum of Science and Technology was established by the *Museums Act* on July 1st, 1990, and is a Crown Corporation named in Part 1 of Schedule III to the *Financial Administration Act*.

The mandate of the Corporation, as stated in the *Museums Act*, is to foster scientific and technological literacy throughout Canada by establishing, maintaining and developing a collection of scientific and technical objects, with special but not exclusive reference to Canada, and by demonstrating the products and processes of science and technology and their economic, social and cultural relationships with society.

The Corporation manages three museum sites: the Canada Science and Technology Museum, the Canada Aviation Museum and the Canada Agriculture Museum. The museums operate under a common set of corporate policies. Support services such as human resources, finance and facilities management are provided centrally. The Corporation's operations are divided into two complementary activities:

Management of the collection

This includes research, documentation, cataloguing, conservation, the library and related services.

Management of public facilities and programs

This includes the development and maintenance of exhibitions, interpretive and educational activities, communication and promotion, gift shops, food services and other services to visitors.

2. Accounting policies

These financial statements have been prepared in accordance with generally accepted accounting principles. The significant accounting policies are:

(a) Inventories
Inventories are valued at the lower of cost and net realizable value.

(b) Collection
The collection constitutes the major portion of the Corporation's assets but is shown at a nominal value of $1,000 on the balance sheet because of the practical difficulties in reflecting it at a meaningful value. Items purchased for the collection are recorded as expenses in the year of acquisition. Items donated to the Corporation are not recorded in the books of account.

(c) Capital assets
Capital assets are recorded at cost and are amortized using the straight-line method over their estimated useful lives as follows:

Building renovations	10 to 25 years
Equipment	5 to 12 years
Office furniture	5 to 10 years

(d) Pension plan
The employees of the Corporation participate in the Public Service Superannuation Plan administered by the Government of Canada. The employees and the Corporation contribute equally to the cost of the plan. This contribution represents the total pension obligation of the Corporation. Contributions in respect of current service are expensed during the year in which the service is rendered. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(e) Employee termination benefits
On termination of employment, employees of the Corporation are entitled to certain benefits provided for under their collective agreements and their conditions of employment. The cost of these benefits is expensed in the year in which they are earned.

(f) Donations
The Corporation follows the deferral method of accounting for donations.

Donations received for specific purposes, and related investment income, are deferred and recognized as revenue in the year in which the related expenses are incurred. Donations without restrictions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Volunteers contribute a significant number of hours per year. Because of the difficulty of determining their fair value, contributed services are not recognized in these financial statements.

(g) Parliamentary appropriation
The Government of Canada provides funding to the Corporation. Parliamentary appropriations received for specific projects are recorded as deferred revenue and recognized in the year in which the related expenditures are incurred. The portion of the parliamentary appropriation used to purchase depreciable capital assets is recorded as deferred capital funding and amortized on the same basis and over the same periods as the related capital assets. The remaining portion of the appropriation is recorded in the statement of operations in the year for which it was approved.

3. Cash and short-term investments

	2000	1999
	(in thousands of dollars)	
Cash	**$ 81**	$ 128
Short-term investments	**2,250**	3,000
	$ 2,331	$ 3,128

The Corporation's investments are limited to 60 days in Schedule "A" banks, government backed paper and commercial paper rated A++ by the Canadian Bond Rating Services. The average rate of return in 1999–2000 was 4.95% compared to 4.89% in 1998–1999.

The market value of the short-term investments is approximately $2,260,000. Accrued interest of $5,466 is presented in accounts receivable.

4. Inventories

	2000	1999
	(in thousands of dollars)	
Books, pamphlets, replicas and other materials	**$ 349**	$ 394
Publications in process	**13**	8
	$ 362	$ 402

5. Restricted cash and investments

Restricted cash and investments arise from donations received from individuals and corporations for specific purposes and are managed in accordance with the donor's wishes and the by-laws of the Corporation.

6. Collection

Part of the mandate of the Corporation is " to foster scientific and technological literacy throughout Canada by establishing, maintaining and developing a collection of scientific and technological objects..." This collection is the main asset of the Corporation and is composed of over 450,000 items divided in the following areas.

Aviation:
aircraft and related materials

Communications:
graphic arts, film, photography and related systems, broadcasting, sound recording and reproduction, electronic communications and electronic music

Industrial technology:
generic industrial processes, engineering, industrial design, construction, domestic appliances, tools and systems

Natural resources:
energy production, processing and infrastructure, mining and extraction technology

Renewable resources:
agriculture, forestry and fishery technologies—harvesting and primary processing

Scientific instrumentation:
instruments, tools and systems with direct application to mathematics, chemistry, physics, as well as astronomy, astrophysics, medicine, meteorology, surveying and mapping, and information technology

Transportation:
motorized and non-motorized wheel, track and trackless vehicles, motorized and non-motorized marine transportation, as well as the supporting infrastructure of technologies, tools and instruments

7. *Capital assets*

	2000			1999
	Cost	Accumulated amortization	Net book value	Net book value
		(in thousands of dollars)		
Building renovations	**$ 10,927**	**$ 3,324**	**$ 7,603**	$ 6,591
Equipment	**4,688**	**4,127**	**561**	585
Office furniture	**5,145**	**4,426**	**719**	773
	$ 20,760	**$ 11,877**	**$ 8,883**	$ 7,949

Capital assets do not include land and buildings occupied by the Corporation since they are owned by the Government of Canada.

8. *Other deferred revenues*

This represents the unspent amount of donations received for specific purposes and related investment income.

	2000	1999
	(in thousands of dollars)	
Balance at the beginning of the year	**$189**	$157
Receipts		
Gifts and bequests	**83**	56
Interest	**13**	15
Total Receipts	**96**	71
Amount recognized as revenue in the year	**(54)**	(39)
Balance at the end of the year	**$ 231**	$ 189

9. Related party transactions

The corporation is related to all Government of Canada departments, agencies and Crown corporations. The Corporation incurred expenses for the work and services provided by other government departments and agencies. These transactions were conducted in the normal course of operations, under the same terms and conditions that applied to outside parties.

10. Deferred capital funding

Deferred capital funding represents the unamortized portion of parliamentary appropriations used to purchase depreciable capital assets.

Changes in the deferred capital funding balance are as follows:

	2000	1999
	(in thousands of dollars)	
Balance at the beginning of the year	**$ 7,949**	$ 7,994
Appropriation used to purchase depreciable capital assets	**2,193**	1,106
Amortization	**(1,259)**	(1,151)
Balance at the end of the year	**$ 8,883**	$ 7,949

11. Commitments

As at March 31, 2000, the Corporation had entered into various agreements for accommodation, protection services, facilities management services and exhibition rentals for a total amount of $14,660,000. The future minimum payments for the next five years are as follows:

	(in thousands of dollars)
2000–01	$ 3,206
2001–02	$ 2,864
2002–03	$ 2,210
2003–04	$ 2,150
2004–05	$ 1,537

12. Parliamentary appropriation

	2000	1999
	(in thousands of dollars)	
Main Estimates amount provided for operating and capital expenditures	**$ 19,677**	$ 18,595
Supplementary estimates:		
Roof repairs	**400**	—
Payment in lieu of taxes	**—**	403
Transfer from other votes:		
Severance adjustments and retroactive wages settlement	**19**	629
Collective Agreement	**224**	—
	20,320	19,627
Portion of amount deferred for Canada Agriculture Museum project used in current year	**650**	335
Amounts used to purchase depreciable capital assets	**(2,193)**	(1,106)
Amortization of deferred capital funding	**1,259**	1,151
Parliamentary appropriation	**$ 20,036**	$ 20,007

13. Financial instruments

The carrying amounts of the Corporation's accounts receivable and payable approximate their fair values.

14. Comparative figures

Certain 1999 comparative figures have been reclassified to conform to the current year's presentation.

National Museum of Science and Technology

SCHEDULE OF EXPENSES

for the year ended March 31, 2000

	2000	1999
	(in thousands of dollars)	
Personnel costs	$ 11,422	$ 10,946
Leases of buildings	1,578	1,580
Professional and special services	1,560	1,744
Property taxes	1,500	1,494
Amortization of capital assets	1,259	1,151
Utilities	1,040	988
Material and supplies	893	658
Repairs and upkeep of equipment	682	584
Property management services	627	580
Gift stores, cafeteria and product marketing	501	866
Protection services	490	476
Advertising	410	528
Publications	347	604
Repairs and upkeep of buildings	336	312
Rentals of equipment	233	327
Travel	228	180
Communications	179	190
Office supplies and equipment	148	116
Design and display	123	168
Freight express and cartage	105	201
Books	84	88
Purchase of objects for the collection	63	75
Miscellaneous	49	19
Total expenses	$ 23,857	$ 23,875

Old Port
# of Montreal
Corporation Inc.

AUDITOR GENERAL OF CANADA
VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Public Works and Government Services

I have audited the balance sheet of the Old Port of Montreal Corporation Inc. as at March 31, 2000 and the statements of revenue, expenditures and Minister's account and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act,* I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act*, the articles and the by-laws of the Corporation and the Agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works and Government Services.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 14, 2000

OLD PORT OF MONTREAL CORPORATION INC.

Balance Sheet as at March 31

	2000	1999
ASSETS		
Current		
Cash	$ 10,338,291	$ 4,369,340
Accounts receivable	3,493,097	1,288,218
Prepaid expenses	437,780	143,107
	14,269,168	5,800,665
Deferred charges - iSci Centre (Note 3a)	6,448,156	-
	$ 20,717,324	$ 5,800,665
LIABILITIES		
Current		
Accounts payable	$ 8,177,891	$ 4,931,247
Due to Receiver General for Canada (Note 4)	841,231	702,176
Deferred revenue (Note 3b)	3,160,528	25,204
Short term portion of loan from the Government of Canada	1,986,485	-
	14,166,135	5,658,627
Loan from the Government of Canada (Note 5)	6,605,515	-
	20,771,650	5,658,627
EQUITY OF CANADA		
Minister's account	(54,326)	142,038
Capital Stock (Note 6)	-	-
	(54,326)	142,038
	$ 20,717,324	$ 5,800,665

Commitments (Note 10)

See accompanying notes to the financial statements

Approved by the Board:

Director

Director

OLD PORT OF MONTREAL CORPORATION INC.

Revenue, Expenditures and Minister's Account for the year ended March 31

	2000	1999
Revenue		
Animation programs	$ 3,230,384	$ 4,222,113
Less: Royalties to third parties	181,058	250,669
	3,049,326	3,971,444
Parking	2,121,663	2,265,732
Sponsorships	847,516	903,124
Concessions	742,725	801,063
Interest	230,840	195,516
Other	666,048	561,258
	7,658,118	8,698,137
Expenditures		
Operating expenditures		
Maintenance of property and space rental	5,706,731	5,473,266
Communications	3,127,398	3,026,552
Animation programs	2,488,071	2,651,618
Administration	2,402,755	2,038,791
	13,724,955	13,190,227
Excess of operating expenditures over revenue	6,066,837	4,492,090
Capital expenditures	19,524,472	10,629,449
Excess of expenditures over revenue	25,591,309	15,121,539
Revenue allotted to the Consolidated Revenue Fund of Canada	139,055	202,249
Amount to be funded for the year	25,730,364	15,323,788
Parliamentary appropriations	15,734,000	14,197,000
Non-refundable contribution - Canada Economic Development	9,800,000	-
	25,534,000	14,197,000
Decrease in the Minister's account	(196,364)	(1,126,788)
Minister's account at the beginning of the year	142,038	1,268,826
Minister's account at the end of the year	$ (54,326)	$ 142,038

See accompanying notes to the financial statements

OLD PORT OF MONTREAL CORPORATION INC.

Cash Flow Statement
for the year ended March 31

	2000	1999
Operating activities		
Variation in the Minister's Account	$ (196,364)	$ (1,126,788)
Variation in accounts receivable	(2,204,879)	(843,040)
Variation of prepaid expenses	(294,673)	259,847
Variation of deferred charges - iSci Centre	(6,448,156)	-
Variation of accounts payable	3,246,644	3,744,243
Variation in amount due to Receiver General for Canada	139,055	202,249
Variation in deferred revenue - operating	9,872	9,470
	(5,748,501)	2,245,091
Financing activities		
Variation in deferred revenue - fund-raising campaign	3,125,452	-
Loan from the Government of Canada	8,592,000	-
	11,717,452	-
Cash		
Variation for the year	5,968,951	2,245,981
Balance at beginning of the year	4,369,340	2,123,359
Balance at end of the year	$ 10,338,291	$ 4,369,340

See accompanying notes to the financial statements

Notes to Financial Statements
as at March 31, 2000

1. Authority and activities

The Old Port of Montreal Corporation Inc. was incorporated on November 26, 1981 under the *Canada Business Corporations Act* and is a wholly owned subsidiary of Canada Lands Company Limited, a Crown corporation named in Part I of Schedule III to the *Financial Administration Act.*

Effective February 1, 1982, pursuant to an agreement between the Corporation and Her Majesty in Right of Canada represented by the Minister of Public Works and Government Services, the Corporation is responsible for developing and for promoting the development of the lands of the Old Port of Montreal, and for administering, managing, and maintaining the property of Her Majesty located therein. The Corporation fulfils this responsibility in the name and for the account of the Minister of Public Works and Government Services who continues to hold title to the capital assets for the benefit of Her Majesty.

2. Significant accounting policies

a) Financial statement presentation

The financial statements present transactions carried out by the Corporation as agent and on behalf of the Minister of Public Works and Government Services.

b) Minister's Account

The Minister's Account represents amounts available to the Corporation subject to receiving proper authorization.

c) Parliamentary appropriations

Parliamentary appropriations are received to make good the excess of expenditures over revenue. They are recorded in the Statement of Revenue, Expenditures and Minister's Account in the year for which they are voted by Parliament.

The repayable advance received from the Government of Canada is recorded as a loan from the Government. Interest charged on this loan is recorded under administrative expenditures.

d) Contributions

The Corporation uses the deferral method to account for those contributions that are donations. Contributions received are generally restricted to specific purposes. Contributions are deferred and recognized to revenue in the year where the related expenditures are incurred.

e) Sponsorships

The Corporation has entered into agreements with a number of corporate sponsors whereby these sponsors provide cash, products, advertising and services. In return, the sponsors are provided with various benefits that mainly include visibility and exclusive rights to marketing and other activities. Sponsorships are recognized in the period to which they relate. Non-monetary operations are recorded at fair market value.

f) Expenditures of a capital nature

Expenditures of a capital nature represent costs that significantly increase the value or extend the useful lives of properties administered by the Corporation and they also include costs of demolishing structures. Capital assets are not presented in the balance sheet since the Minister of Public Works and Government Services holds title to the capital assets for the benefit of Her Majesty.

g) Retirement savings plan

The Corporation has established a group retirement savings plan under which a single trust was established with a private sector organization in order to accumulate contributions to provide a retirement income for the employees through individually registered retirement savings plans. The Corporation acts solely as an agent without incurring any liability.

3. Fund-raising campaign - iSci Centre

The Corporation initiated a campaign to raise funds for the founding of the iSci Centre. Financial contributions go toward funding all iSci Centre public programs, including exhibitions. As at March 31, 2000, the Corporation had signed for $ 10.7 million of sponsorship and donation agreements.

a) Deferred charges - iSci Centre

The costs incurred for the conception, development and implementation of the exhibitions in the iSci Centre are deferred until the official opening of the exhibition. The iSci Centre will be opened in May 2000. The deferred charges will be amortized over the useful life of the exhibitions.

b) Deferred revenue

Donation agreements amount to $ 2.2 million of which about $ 450,000 was received in 1999-2000 ($ 60,000 in 1998-1999). The received donations were recorded in deferred revenue pending the official opening of the iSci Centre.

Sponsorships agreements amount to $ 8.5 million of which approximately $ 2.5 million was received in cash during 1999-2000 (nil in 1998-1999). Sponsorships received were recorded in deferred revenue. Non-monetary sponsorships have been estimated at approximately $ 0.2 million and are included equally in deferred charges and in deferred revenue. The Corporation will start to provide substantial benefits relating to sponsorships when the iSci Centre is open in May 2000.

4. Due to Receiver General for Canada

Pursuant to the agreement between the Corporation and the Minister of Public Works and Government Services, proceeds from the direct use of capital assets having titles held by the Minister are allotted to the Consolidated Revenue Fund of Canada and are to be remitted to the Receiver General for Canada. Other proceeds are used by the Corporation for its operations.

	2000	1999
Balance at beginning of the year	$ 702,176	$ 499,927
Proceeds allotted to the Consolidated Revenue Fund of Canada		
Derived from operations:		
Monthly parking	85,904	119,737
Rentals	32,843	48,555
Other	20,308	33,957
	139,055	202,249
	$ 841,231	$ 702,176

Among the amendments to the agreement that were authorized on May 18th, 2000 the existing provisions that restricted the Corporation's authority to retain and use certain revenues generated from the Old Port are removed.

5. Loan from the Government of Canada

The Minister of Public Works and Government Services Canada has provided to the Corporation a loan of $ 8.6 million, repayable, with interest, over a period of four consecutive years starting in the year 2000-2001. The effective interest rate is 7.45 percent. Annual repayments of principal are due on August 1st of each year, and are as follows:

	Principal
2000	$ 1,986,485
2001	2,045,550
2002	2,198,049
2003	2,361,916
Total	$ 8,592,000

6. Capital stock

The Corporation is authorized to issue a single share, to be held in trust for Her Majesty in Right of Canada, which may not be transferred without the consent of the Governor General in Council. The authorized share has been issued in consideration of services rendered.

7. Fair value of financial instruments

The transactions related to cash, accounts receivable and accounts payable are incurred in the normal course of business. The carrying amounts of each of these accounts approximate their fair value because of their short term maturity. There is no concentration of accounts receivable with any customer and, consequently, the credit risk is low.

As at March 31, 2000 the value of the loan from the government is approximately the fair value because it has been received close to year end.

8. Non-monetary transactions

The Corporation has granted exclusive rights to some of its sponsors for the sale of their products in exchange mainly for publicity. These non-monetary transactions were at arm's length and recorded equally in revenue and in expenditures at the fair value of the assets and services received, estimated at $ 345,000 in 1999-2000 ($ 318,000 in 1998-99).

9. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

Canada Economic Development provided a non-refundable contribution for the construction of the iSci Centre. Furthermore, other federal Crown corporations are financing the implementation of the exhibitions.

10. Commitments

As at March 31, 2000 the commitments totalled $ 5.1 million ($ 1.5 million as at March 31, 1999) for operating activities, mainly for publicity, films and rentals, and $ 3.5 million ($ 2.2 million as at March 31, 1999) for capital expenditures and the implementation of the exhibitions.

11. Contingencies

In connection with its activities, the Corporation is the claimant or defendant in pending claims and lawsuits. It is the opinion of management that these actions will not result in any material liabilities to the Corporation.

12 Cumulative data since November 26, 1981

	Accumulated as at March 31, 1999	1999-2000	Accumulated as at March 31, 2000
Capital expenditures	$ 145,917,068	$ 19,524,472	$ 165,441,540
Excess of operating expenditures over revenue	44,589,310	6,066,837	50,656,147
Revenue allotted to the Consolidated Revenue Fund of Canada	5,741,674	139,055	5,880,729
Totals	$ 196,248,052	$ 25,730,364	$ 221,978,416

Pacific
Pilotage
Authority

These financial statements have been prepared by management in accordance with generally accepted accounting principles. The Authority's management is responsible for the integrity and objectivity of the data in these financial statements along with the supporting information contained in the annual report. Management maintains a system of internal control to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Board of Directors of the Authority is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises this responsibility through an Audit Committee which meets regularly with management.

The independent auditor, the Auditor General of Canada, is responsible for auditing the financial statements of the Authority and for issuing his report thereon.

K.G. Obermeyer
Director of Marine Operations

B.D. Chadwick
Controller

January 28, 2000

OFFICE OF THE AUDITOR GENERAL BUREAU DU VÉRIFICATEUR GÉNÉRAL

To the Minister of Transport

I have audited the balance sheet of the Pacific Pilotage Authority as at December 31, 1999 and the statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations and the by-laws of the Authority.

Sheila Fraser

Sheila Fraser, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
January 28, 2000

Balance Sheet

as at December 31, 1999
(in thousands of dollars)

ASSETS	**1999**	**1998**
Current		
Cash and cash equivalents (Note 3)	**$ 3,378**	$ 3,223
Investments (Note 4)	**968**	998
Accounts receivable (Note 3)	**3,700**	2,970
Prepaid expenses	**72**	40
	8,118	7,231
Long-term		
Capital assets (Note 5)	**556**	515
	556	515
	$ 8,674	$ 7,746

LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 3)	**$ 3,503**	$ 2,977
Long-term		
Accrued employee termination benefits	**830**	753
	$ 4,333	$ 3,730

Commitments (Note 6)

EQUITY OF CANADA		
Contributed capital	**806**	806
Retained earnings	**3,535**	3,210
	4,341	4,016
	$ 8,674	$ 7,746

The accompanying notes are an integral part of these financial statements.

Approved by the Authority:

Chairman *Member*

Statement of Operations

for the year ended December 31, 1999

(in thousands of dollars)

	1999	1998
Revenues		
Pilotage charges	**$ 38,911**	$ 37,277
Interest and other income	**195**	164
	39,106	37,441
Expenses		
Contract pilots' fees	**25,935**	25,073
Transportation and travel	**4,400**	4,122
Operating costs of pilot boats	**4,265**	4,023
Staff salaries and benefits	**1,817**	1,816
Pilots' salaries and benefits	**1,228**	1,130
Professional and special services	**263**	211
Rentals	**215**	204
Amortization	**170**	132
Utilities, materials and supplies	**139**	131
Computer services	**236**	106
Communications	**69**	85
Repairs and maintenance	**44**	23
	38,781	37,056
Net income for the year	**$ 325**	$ 385

The accompanying notes are an integral part of these financial statements.

Statement of Retained Earnings

for the year ended December 31, 1999

(in thousands of dollars)

	1999	1998
Appropriated		
Balance at beginning and end of the year	**$ 500**	$ 500
Unappropriated		
Balance at beginning of the year	**2,710**	2,325
Net income for the year	**325**	385
Balance at end of the year	**3,035**	2,710
	$ 3,535	$ 3,210

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

for the year ended December 31, 1999

(in thousands of dollars)

	1999	**1998**
Operating activities		
Net income for the year	**$ 325**	$ 385
Items not affecting cash:		
Amortization of capital assets	**170**	132
Employee termination benefits	**77**	87
Loss on disposal of fixed assets	**6**	–
Net change in working capital balances excluding cash and cash equivalents	**(236)**	104
	342	708
Investing activities		
Acquisition of capital assets	**(217)**	(33)
Purchase of investment	**(968)**	(998)
Proceeds on disposal of investments	**998**	907
	(187)	(124)
Increase in cash and cash equivalents	**155**	584
Cash and cash equivalents, beginning of year	**3,223**	2,639
Cash and cash equivalents, end of year	**$ 3,378**	$ 3,223

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

December 31, 1999

1. Authority and objectives

The Pacific Pilotage Authority was established in 1972 pursuant to the Pilotage Act. The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters. The Act further provides that the tariffs of pilotage charges shall be fair and reasonable and consistent with providing a revenue, together with any revenue from other sources, sufficient to permit the Authority to operate on a self-sustaining financial basis.

Coastal pilotage services are provided by the British Columbia Coast Pilots Ltd. under an agreement for services. Pilotage services on the Fraser River are provided by employee pilots.

The Authority is a Crown corporation named in Part I of Schedule III to the Financial Administration Act and is not subject to any income taxes.

2. Significant accounting policies

Amortization

Amortization of capital assets is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

Buildings		20 years
Pilot boats		25 years
Equipment	- communication and other	10 years
	- computer	3 years
Leasehold improvements		10 years

Employee termination benefits

Employees are entitled to specified benefits on termination as provided for under labour contracts and conditions of employment. The liability for these payments is estimated and recorded in the accounts as the benefits accrue to the employees.

Contributed capital

Amounts representing the values assigned to capital assets transferred from Canada in 1972 and the cost of property and equipment financed from previous parliamentary appropriations are shown as contributed capital.

Appropriated retained earnings

Amounts are appropriated from time to time by the Authority to provide for extraordinary costs arising from renewal or acquisition of capital assets and for contingencies.

Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. These contributions represent the total pension obligation of the Authority and are recognized in the accounts on a current basis.

Investments

Investments which include Treasury bills and other securities are valued at cost which approximates fair market value.

3. Financial instruments

The Authority invests its short-term funds with a Canadian chartered bank and in other Government of Canada guaranteed instruments.

Due to the short term nature of accounts receivable, accounts payable and accrued liabilities, their fair value approximates book value.

There is no concentration of accounts receivable with any one customer, and accordingly there is no significant credit risk.

4. Investments

The Authority invests in government-backed securities only. Its investment portfolio as at December 31, 1999 of $968,000 (1998 - $998,000) is comprised of a Peoples Trust mortgage-backed security (1999 - yield 5.58%, 1998 - yield 4.85%) which matures September 1, 2001. The fair market value of the investment as at December 31, 1999 approximates the carrying value.

5. Capital assets

	1999			1998		
	Cost	**Accumulated amortization** (in thousands of dollars)	**Net**	Cost	Accumulated amortization (in thousands of dollars)	Net
Buildings	**$ 149**	**$ 79**	**$ 70**	$ 149	$ 72	$ 77
Pilot boats	**1,306**	**1,151**	**155**	1,306	1,134	172
Equipment						
- communication and other	**704**	**498**	**206**	688	459	229
- computers	**373**	**283**	**90**	567	537	30
Leasehold improvements	**39**	**4**	**35**	81	74	7
	$ 2,571	**$ 2,015**	**$556**	$ 2,791	$ 2,276	$515

6. Commitments

The Authority has a long-term operating lease obligation for office accommodation of $66,000 per annum to December 31, 2004 and $76,000 per annum to December 31, 2009. The obligation also calls for pro-rata share of annual operating costs estimated at $37,000 for 2000.

The Authority has a commitment to the British Columbia Coast Pilots Ltd. to contribute $125,000 per annum towards pilot training costs, for the duration of the 5 year contract between the two parties, commencing January 1, 1997.

The Authority has a vehicle lease obligation of $8,000 per annum to December 14, 2002

7. Uncertainty due to Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may effect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

Petro-Canada Limited

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of Petro-Canada Limited as at December 31, 1999 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Petro-Canada Limited Act* and the by-laws of the Corporation.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
March 15, 2000

PETRO-CANADA LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 1999

(stated in millions of dollars)

	1999	1998
ASSETS		
CURRENT ASSETS		
Cash and short-term deposits	$ 3	$ 3
Accrued interest receivable	9	10
Current portion of investments	5	13
	17	26
Investments (Note 4)	337	467
	$ 354	$ 493
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accrued interest payable	$ 9	$ 10
Deferred revenue (Note 5)	12	21
Long-term debt (Note 6)	329	457
	350	488
SHAREHOLDER'S EQUITY (Note 7)	4	5
	$ 354	$ 493

See accompanying notes

Approved by the Board

Director ____________________

Director ____________________

PETRO-CANADA LIMITED
STATEMENT OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1999

(stated in millions of dollars)

	1999	1998
REVENUE		
Interest revenue	$ 28	$ 41
EXPENSES		
Interest on long-term debt	29	40
NET INCOME (LOSS)	(1)	1
DEFICIT AT BEGINNING OF YEAR	(24)	(25)
DEFICIT AT END OF YEAR (Note 7)	$ (25)	$ (24)

See accompanying notes

PETRO-CANADA LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1999

(stated in millions of dollars)

	1999	1998
OPERATING ACTIVITIES		
Net income (loss)	$ (1)	$ 1
Non-cash items included in income		
Accrued interest	5	(11)
Amortization of premiums	1	1
Amortization of deferred revenue	(9)	(3)
	(4)	(12)
INVESTING ACTIVITIES		
Proceeds from sale of investments	124	-
Proceeds from maturity of investments	4	12
	128	12
FINANCING ACTIVITIES		
Payment of long term debt	(124)	-
Increase in cash and short-term deposits	–	–
Cash and short-term deposits at beginning of year	3	3
Cash and short-term deposits at end of year	$ 3	$ 3

See accompanying notes

PETRO-CANADA LIMITED
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999
(tables are stated in millions of dollars)

Note 1: THE CORPORATION

Petro-Canada Limited ("the Corporation") is an agent Crown corporation named in Part II of Schedule III of the Financial Administration Act. The objective of the Corporation is to meet its obligations on its outstanding bonds and its current and future operating costs from the revenues generated by its investment portfolio and cash reserves.

Pursuant to an Order-in-Council and subsequent amendments to income tax legislation, effective July 3, 1991, the Corporation became an exempt corporation for purposes of the Income Tax Act and is not liable for income taxes after that date.

On December 10, 1999, the Board of Directors of the Corporation approved a motion to recommend to the Minister of Finance that the Corporation be dissolved in accordance with the Petro-Canada Public Participation Act during the 2000 fiscal year. Upon dissolution of the Corporation, all assets and liabilities will be transferred to the Government of Canada.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Translation of Foreign Currency

Monetary assets and liabilities are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Related interest revenue and expense are translated at rates of exchange in effect at the respective transaction dates. Investments hedge foreign currency fluctuations on long-term debt. Unrealized exchange gains or losses arising on translation of investments are offset against those relating to the long-term debt with the difference recorded in the investment component of the balance sheet.

(b) Investments

Investments are carried at cost less amortization of premiums on acquisition. Premiums on acquisition are amortized on a straight-line basis over the life of the related bond. Strip bonds are carried at cost plus accrued interest.

(c) Deferred Revenue

Deferred revenue is amortized on a straight-line basis over the life of the related debt.

Note 3: RELATED PARTY TRANSACTIONS

The Corporation holds investments with a face value of $257 million (1998 - $273 million) in Export Development Corporation, an agent Crown corporation of the Government of Canada, and has $3 million on deposit with the Government of Canada (1998 –$3 million). In 1999, the investments earned interest of $22 million per annum (1998 –$23 million). The deposit earned interest of $164,000 during 1999 (1998 – $214,000). Interest has been reflected in the statement of operations as interest revenue.

Note 4: INVESTMENTS

The investments are high quality government debt securities that are intended to be held until maturity and as a result no adjustments are made for any decreases in market value. Proceeds from interest and principal maturity of the investments approximate the Corporation's interest and principal obligations of the debentures in long-term debt both in respect of the timing of payments and the currency of payments.

Credit Risk: Approximately 99% of the securities in the investment portfolio are U.S. government and agency securities (US $80 million, 1998 – US $182 million) and Export Development Corporation notes, which are considered to be low risk, and the other 1% are provincial . government securities.

Terms and Conditions: Strip bonds (16% of the investment portfolio), which receive interest at maturity, earn effective interest of 6.02%to 8.61% (1998 - 5.56% to 8.61%). These bonds mature between 2000 and 2018. Coupon bonds (84% of the investment portfolio) receive interest semi-annually at interest rates of 8.25% to 10.35% (1998 – 8.25% to 10.35%). These bonds mature between 2000 and 2019.

Fair Value: The fair value of the investments is $360 million at December 31, 1999 (1998 - $541 million). The fair value is determined by quoted market prices.

Maturity Structure: The following table provides the maturity structure of the investments:

2000	2001	2002	2003	2004	Thereafter	Total
5	4	4	22	2	305	342

Note 5: DEFERRED REVENUE

In May 1991, the Corporation entered into a debt restructuring agreement ("the Agreement") with Petro-Canada and the Government of Canada whereby Petro-Canada was to prepay to the Corporation the outstanding debentures receivable due to the Corporation based on the market value of the debentures on the date of prepayment. At December 31, 1992, Petro-Canada had prepaid all debentures receivable due to the Corporation thereby completing the repayment required under the terms of the Agreement. Proceeds from the prepayments were used to retire long-term debt of the Corporation. Where outstanding debentures in long-term debt could not be retired, investments were purchased by the Corporation to meet the future obligations on such debt.

Under the Agreement, Petro-Canada paid to the Corporation a prepayment premium in consideration of the costs associated with the prepayment of debentures receivable.

The Corporation has deferred the portion of the gain on retirement of debentures receivable and the portion of the prepayment premium associated with the long-term debt not redeemed.

Note 6: LONG-TERM DEBT

	Maturity	1999	1998
9.50% unsecured debentures (U.S. $17 million)	2003	$ 25	$ 134
8.60% unsecured debentures (U.S. $158 million)	2010	228	242
8.25% unsecured debentures (U.S. $33 million)	2016	48	51
9.70% unsecured debentures (U.S. $16 million)	2018	23	24
8.80% unsecured debentures (U.S. $4 million)	2019 (1)	5	6
		$ 329	$ 457

(1) Redeemable, at face value, in 2004 at the option of the holder thereof.

Within the next five years, repayment of long-term debt in the amount of $25 million is required in 2003.

The fair value of the long-term debt portfolio is $362 million at December 31, 1999 (1998 - $525 million). The fair value is determined by quoted market prices.

Note 7: SHAREHOLDER'S EQUITY

	1999	1998
Capital	$ 2,727	$ 2,727
Deficit	(25)	(24)
	2,702	2,703
Shareholder's equity attributed to investment in Petro-Canada transferred to the Government of Canada in 1991	(2,698)	(2,698)
	$ 4	$ 5

Authorized Capital

(a) 71,188 common shares with a par value of one hundred thousand dollars each, and

(b) Preferred shares issued to the Government of Canada provided that the amount of such shares together with any loans received, and outstanding, from the Consolidated Revenue Fund of the Government of Canada is not in excess of one billion dollars. These shares have a par value of one dollar each, are redeemable at par at the option of the Corporation, carry no stated rate of dividend and are non-cumulative.

Issued to the Government of Canada

	Number of Shares	1999	1998
Common shares	17,540	$ 1,754	$ 1,754
Preferred shares	972,771,853	973	973
Total capital		$ 2,727	$ 2,727

Queens
Quay
West
Land
Corporation

AUDITOR'S REPORT

To the Minister of Public Works and Government Services

I have audited the balance sheet of Queens Quay West Land Corporation as at March 31, 2000 and the statements of operations and deficit and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and the by-laws of the Corporation.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada

May 3, 2000

QUEENS QUAY WEST LAND CORPORATION

Balance Sheet

As at March 31

	Note	2000	1999
## Assets			
Current assets:			
Cash and short-term investments	3	$ 8,400,236	$ 1,401,474
Receivables		316,892	110,181
		8,717,128	1,511,655
Non-current assets:			
Land		1	1
		1	1
		$ 8,717,129	$ 1,511,656
## Liabilities and Shareholder's Deficiency			
Current liabilities:			
Accounts payable and accrued liabilities		$ 1,261,479	$ 1,071,732
Deposit on future sale of property	9	5,943,508	915,000
Loan from Canada	4	45,800,000	45,800,000
Shareholder's deficiency:			
Share capital	5	1	1
Contributed capital		1,000,000	1,000,000
Deficit		(45,287,859)	(47,275,077)
		(44,287,858)	(46,275,076)
Contingencies	8		
		$ 8,717,129	$ 1,511,656

See accompanying notes to financial statements

On behalf of the Board:

David F. Ellis Director

Anne Morash Director

QUEENS QUAY WEST LAND CORPORATION

Statement of Operations and Deficit

For the year ended March 31

	Note	2000	1999
CORPORATE AND COMMERCIAL OPERATIONS:			
REVENUES:			
Parking income		$ 96,716	$ 66,830
Commercial and other income	11	248,750	205,000
Interest		114,688	76,224
		460,154	348,054
EXPENSES:			
Commercial management	11	580,752	592,961
Corporate administration		370,419	218,885
		951,171	811,846
NET CORPORATE AND COMMERCIAL LOSS		(491,017)	(463,792)
DEVELOPMENT OPERATIONS:			
Land sale	6	5,728,235	-
Payment pursuant to the Implementation Agreement	6	(3,000,000)	-
Period development costs	6	(250,000)	(822,370)
Net development income (expense)		2,478,235	(822,370)
Net parking and commercial income assigned to Harbourfront Foundation	7	1,435,293	1,061,769
Contributions to Harbourfront Foundation	7	(1,435,293)	(1,061,769)
		-	-
Parliamentary appropriations from Canada for operating contributions to Harbourfront Centre	10	3,000,000	3,500,000
Operating contributions to Harbourfront Centre	10	(3,000,000)	(3,500,000)
		-	-
Net income (loss) for the year		1,987,218	(1,286,162)
Deficit, beginning of year		(47,275,077)	(45,988,915)
SURPLUS (DEFICIT), END OF YEAR		$ (45,287,859)	$ (47,275,077)

See accompanying notes to financial statements

QUEENS QUAY WEST LAND CORPORATION

Statement of Cash Flow

For the year ended March 31

	Note	2000	1999
OPERATING ACTIVITIES:			
Net income (loss) for the year		$ 1,987,218	$ (1,286,162)
Increase in deposit on future sale of property	9	5,028,508	915,000
Decrease (increase) in receivables and other assets		(206,711)	584,108
Increase (decrease) in accounts payable and accrued liabilities		189,747	(314,103)
Net parking and commercial income assigned to Harbourfront Foundation	7	1,435,293	1,061,769
Contributions to Harbourfront Centre	10	(3,000,000)	(3,500,000)
Contributions to Harbourfront Foundation	7	(1,435,293)	(1,061,769)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		3,998,762	(3,601,157)
FINANCING ACTIVITIES:			
Parliamentary appropriations from Canada for operating contributions to Harbourfront Centre	10	3,000,000	3,500,000
CASH PROVIDED BY FINANCING ACTIVITIES		3,000,000	3,500,000
Increase (decrease) in cash and short-term investments		6,998,762	(101,157)
Cash and short-term investments, beginning of year		1,401,474	1,502,631
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR		$ 8,400,236	$ 1,401,474

See accompanying notes to financial statements

1. The Corporation:

Queens Quay West Land Corporation (the "Corporation") was incorporated under the *Canada Business Corporations Act* on December 21, 1984 and is a Crown corporation listed under Part I of Schedule III of the *Financial Administration Act*. The share capital of the Corporation is held by Her Majesty the Queen in Right of Canada ("Canada") as represented by the Minister of Public Works and Government Services. Legislation dealing with the sale of the Corporation's assets and the subsequent dissolution of the Corporation received royal assent in November 1991. The Corporation is exempt from corporate income tax.

The Corporation operates the Harbourfront site (the "Site") under a Management Agreement with Canada. The Site, totaling approximately 100 acres, was originally held by Canada. In recent years, much of the land has been conveyed to the City of Toronto with the intended use being parkland and public infrastructure. Of the original 100 acre site, the Corporation currently holds only one remaining property, YQ4, located at 200 Queens Quay West, which consists of approximately 4.5 acres. The other previously owned property, BQ7, located on 545 Lakeshore Blvd. West, was sold during the year 1999-2000.

The Corporation's mandate is to provide solutions to all outstanding business issues, find an alternate funding vehicle to Harbourfront Centre and sell all the remaining assets. This will allow Queens Quay West Land Corporation to be wound up. The Corporation intends to fulfill its obligations and commitments, including those pursuant to the Management Agreement with the Minister of Public Works and Government Services. The Management Agreement provides for the management of the Harbourfront site (approximately 100 acres) by Queens Quay West Land Corporation. The Corporation is managed on a fee-for-service basis by Canada Lands Company CLC Limited.

Agreements with Canada permit the sale or conveyance by the Corporation of certain real estate assets with the proceeds to be used to assist the Corporation in discharging its obligations. The Corporation has received significant financial support from Canada and continues to be dependent on Canada to ensure that the Corporation's obligations and commitments are met as they come due.

In addition to the related party transactions disclosed elsewhere in these financial statements, the Corporation enters into transactions with Canada and other Crown corporations in the normal course of business.

2. Accounting policies:

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies of the Corporation are as follows:

(a) Revenue recognition:

Revenues from commercial activities are recognized as the related services are provided. Revenues from the sale of property are recorded at the closing date specified in the agreement for sale.

(b) Period development costs:

Costs related to development activities, parkland and public infrastructures not directly attributable to a project are recorded in the Statement of Operations and Deficit as period development costs.

(c) Short-term investments:

Short-term investments are carried at lower of cost or market.

3. Short-term investments:

The Corporation invests in the short-term money market. The overall portfolio yield for the year was 5.5% (1999 – 5.3%). All instruments held in short-term investments are rated R1-middle or better by the Dominion Bond Rating Service. The average term to maturity is 7 to 60 days. The fair value of short-term investments as at March 31, 2000 and 1999 approximated the net book value.

4. Loan from Canada:

The loan from Canada is non-interest bearing and is due and payable March 31, 2004. The Corporation may prepay the loan principal at anytime without penalty upon fourteen days' prior notice. The fair value of the loan is $36 million (1999 - $36 million) on a discounted basis. Upon the disposition of the remaining real property, the Corporation must use the proceeds realized first to pay the City of Toronto $10.5 million (1999 - $13.5 million) and then to repay the loan from Canada to the extent possible. At March 31, 2000 the face value of the loan exceeded the value of the Corporation's assets. However, included in these assets is one property carried at a nominal value of $1. It is management's estimate that the net proceeds from the sale of the last property will only be sufficient to pay approximately 61% of the loan from Canada.

5. Share capital:

The authorized share capital of the Corporation consists of 500,000 (1999 – 500,000) common shares without par value of which 215,000 (1999 – 215,000) shares are issued and fully paid for consideration of $1 (1999 - $1).

6. Development operations:

The period development costs of $250,000 (1999 - $822,370) relate to the allowance to Harbourfront Centre for the moving costs to the new office at the York Quay addition and for the contribution to Harbourfront Centre for its master plan study.

During the year 1999-2000, the Corporation sold BQ7 for net proceeds of $5,728,235. A payment of $3 million was made to the City of Toronto pursuant to the Implementation Agreement.

7. Contributions to Harbourfront Foundation:

The Harbourfront Foundation is a charitable foundation that was formed to receive funds and make ongoing contributions to support the public programming activities of Harbourfront Centre. As approved by Treasury Board and reflected in the statement of operations, the Corporation has retained ownership of YQ4 but contractually assigned the net parking income for the period October 1, 1996 to March 31, 2001 to Harbourfront Foundation.

Net commercial income from BQ7 for the period October 1, 1996 to March 31, 2001 has also been assigned to Harbourfront Foundation. As the property was sold in 1999-2000, the Corporation will contribute the income foregone.

The Corporation has also assigned to Harbourfront Foundation the net commercial income of $455,000 per year from Queens Quay Terminal Building from October 1, 1996 to July 6, 2080. This assignment has a fair value of approximately $7 million.

8. Contingencies:

(a) As a result of agreements entered into by the Corporation providing for land conveyances and exchanges, the Corporation is contractually obligated for certain contingent liabilities concerning capital projects, payments to the City of Toronto for parks development, road costs, environmental costs and other indemnities. The

Corporation, pursuant to the Implementation Agreement with the City of Toronto, is required to pay $10.5 million when the remaining property is sold. The Corporation expects to sell the remaining property by the year 2001.

(b) The Corporation is a defendant in certain lawsuits originating in the normal course of business. In the opinion of management, these actions will not have a material adverse effect on the financial position of the Corporation.

9. Deposit on future sale of property:

An agreement to sell YQ4 is scheduled to close by March 2001. The purchaser paid deposits totaling $5,943,508 in 1999-2000.

10. Parliamentary appropriation:

The Government of Canada provides funding to Harbourfront Centre so that it can continue to deliver cultural programs. Treasury Board has authorized PWGSC to provide QQWLC with $3.0 million for 1999-2000 and $3.0 million for 2000-2001 ($3.5 million for 1998-1999). QQWLC is an authorized delivery vehicle for funding to Harbourfront Centre.

11. Lease commitment:

The Corporation is committed under a 15-year lease agreement ending June 30, 2003. The space is subsequently sublet. The current cost of the lease is the net of payments made under the head lease (2000 - $580,752, 1999 - $580,752) and commercial income generated by the sublease (2000 - $248,750, 1999 - $205,000).

The net remaining minimum lease payments totalled $977,438 at year end and are due over the next four years as follows :

2000-2001	$300,750
2001-2002	300,750
2002-2003	300,750
2003-2004	75,188

Royal
Canadian
Mint

Management report

The financial statements contained in this annual report have been prepared by Management in accordance with generally accepted accounting principles in Canada and the integrity and objectivity of the data in these financial statements are Management's responsibility. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the financial statements.

In support of its responsibility, Management has developed and maintains books of account, records, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of financial information, that assets are safeguarded and controlled, and that transactions are in accordance with the *Financial Administration Act* and regulations as well as the *Royal Canadian Mint Act* and the By-law of the Corporation.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee which includes a majority of members who are not officers of the Corporation. The Committee meets with Management and the independent external auditor to review the manner in which these groups are performing their responsibilities and to discuss auditing, internal controls and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditor and has submitted its report to the Board of Directors. The Board of Directors has reviewed and approved the financial statements.

The Corporation's external auditor, the Auditor General of Canada, audits the financial statements and reports to the Minister responsible for the Royal Canadian Mint.

Danielle V. Wetherup
President and Master of the Mint

Beverley A. Lepine
Vice-President, Administration and Finance

Auditor's report

To the Minister of Public Works and Government Services

I have audited the balance sheet of the Royal Canadian Mint as at December 31, 1999 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Royal Canadian Mint Act* and the By-law of the Corporation.

L. Denis Desautels, FCA
Auditor General of Canada
Ottawa, Canada, February 18, 2000

Balance sheet

as at December 31, 1999 (in thousands of dollars)

	1999	1998
Assets		
Current		
Cash and short-term investments (note 8)	$ 16,109	$ 9,813
Accounts receivable	35,834	30,237
Prepaid expenses	2,042	1,740
Inventories (note 3)	37,419	53,452
	91,404	95,242
Capital assets (note 4)	89,204	63,829
	$ 180,608	$ 159,071
Liabilities		
Current		
Accounts payable	$ 33,208	$ 30,861
Short-term debt	–	6,200
Current portion of loans (note 5)	5,302	1,000
Deferred revenues	5,728	2,723
	44,238	40,784
Long-term		
Deferred revenues	2,188	2,695
Loans (note 5)	36,676	40,302
Provision for employee termination benefits	6,529	6,047
	45,393	49,044
Shareholder's equity		
Share capital (authorized and issued, 4,000 non-transferable shares)	40,000	40,000
Retained earnings	50,977	29,243
	90,977	69,243
	$ 180,608	$ 159,071

The accompanying notes are an integral part of these statements

Approved by Management

Danielle V. Wetherup
President and Master
of the Mint

Beverley A. Lepine
Vice-President,
Administration and Finance

Approved on behalf of the
Board of Directors

Emmanuel Triassi
Chairperson

Recommended for approval on
behalf of the Audit Committee

Charles F.M. Ross, H.B.A., L.L.B.
Chair

Statement of operations and retained earnings

for the year ended December 31, 1999 (in thousands of dollars)

	1999	1998
Revenues	$ 584,372	$ 511,267
Cost of goods sold	493,158	450,172
Gross profit	91,214	61,095
Other operating expenses		
Marketing and Sales	40,350	33,181
Administration	22,788	18,043
Depreciation	4,943	4,067
	68,081	55,291
Income from operations	23,133	5,804
Interest income	1,292	1,115
Interest expense	(2,382)	(2,216)
Income before income tax	22,043	4,703
Income tax (note 6)	309	252
Net income	21,734	4,451
Retained earnings, beginning of year	29,243	24,792
Retained earnings, end of year	$ 50,977	$ 29,243

The accompanying notes are an integral part of these statements

Cash flow statement

for the year ended December 31, 1999 (in thousands of dollars)

	1999	1998
Cash flows from operating activities		
Cash receipts from customers	$ 580,946	$ 504,779
Cash paid to suppliers and employees	(537,725)	(505,762)
Interest received	1,619	775
Interest paid	(706)	(914)
Income taxes paid	(320)	(241)
	43,814	(1,363)
Cash flows from investing activities		
Purchase of capital assets	(30,318)	(21,234)
Cash flows from financing activities		
Repayment of loans	(7,200)	(1,022)
Proceeds from loans	–	37,200
	(7,200)	36,178
Net increase in cash and short-term investments	6,296	13,581
Cash and short-term investments at the beginning of year	9,813	(3,768)
Cash and short-term investments at the end of year	$ 16,109	$ 9,813

The accompanying notes are an integral part of these statements

Notes to financial statements

December 31, 1999

1. Authority and objectives

The Mint was incorporated in 1969 by the *Royal Canadian Mint Act* to mint coins in anticipation of profit and carry out other related duties. The Mint is an agent corporation of Her Majesty, named in Part II of Schedule III to the *Financial Administration Act*. It produces all of the circulation coins used in Canada and manages the supporting distribution systems for the Government of Canada. The Mint is one of the world's foremost producers of circulation, collector and bullion investment coins for the domestic and international marketplace. It is also one of the largest gold refiners in the world.

The Mint may borrow money from the Consolidated Revenue Fund or any other source, subject to the approval of the Minister of Finance with respect to the time and the terms and conditions. Since March 1999, following the enactment of changes to the *Royal Canadian Mint Act*, the aggregate of the amounts loaned to the Mint and outstanding at any time shall not exceed $75 million, an increase from the previous $50 million.

2. Significant accounting policies

a) *Inventories*

Raw materials and supplies are valued at the lower of cost and replacement cost, cost being determined by the average cost method. Work in process and finished goods are valued at the lower of cost and net realizable value, cost being determined by the average cost method.

b) *Capital assets*

Capital assets are recorded at cost and depreciated under the straight-line method at the following annual rates:

Land improvements	2 1/2%
Buildings	2 1/2%
Equipment	10%
Hardware and software	20%

c) *Deferred revenues*

Payments received in advance on sales are not recognized as revenue until the products are shipped.

d) *Employee termination benefits*

Employees are entitled to specific termination benefits as provided under their collective agreement and terms of employment. The liability for these benefits is charged to income as benefits accrue to the employees.

e) *Pension plan*

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contributions to the Plan were limited to an amount equal to the employees' contributions on account of current services. Effective April 1, 2000 the Corporation's contributions will increase to an amount reflecting the full cost of the employer contributions. This amount, expressed as a percentage of employee contributions, will fluctuate from year to year depending on the experience of the Plan. The Corporation's contributions represent the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

f) *Foreign currency translation*

Assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate in effect at the balance sheet date. Revenue and expense items are translated at average exchange rates during the year. Translation gains and losses are included in income for the year.

Notes to financial statements

December 31, 1999

3. Inventories

(in thousands of dollars)

	1999	1998
Raw materials	$ 9,973	$ 27,012
Work in process	9,477	11,788
Finished goods	13,889	10,903
Supplies	4,080	3,749
	$ 37,419	$ 53,452

4. Capital assets

(in thousands of dollars)

			1999	1998
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	$ 3,226	$ -	$ 3,226	$ 3,226
Land improvements	914	697	217	231
Buildings	67,709	18,855	48,854	38,939
Equipment	70,412	36,012	34,400	19,070
Hardware and software	7,552	5,045	2,507	2,363
	$ 149,813	$ 60,609	$ 89,204	$ 63,829

5. Loans

(in thousands of dollars)

	1999	1998
10 year loan due December 2007, semi-annual interest at 5.840% with principal repayable in ten equal annual installments commencing December 1998	$ 8,000	$ 9,000
Amortizing bond with two year interest holiday maturing December 2009, semi-annual coupon at 7.753% starting June 2000 with principal repayable in ten equal annual installments commencing December 2000	31,000	31,000
Accrued interest on bond	2,978	1,302
	41,978	41,302
Less current portion of loans	5,302	1,000
	$ 36,676	$ 40,302

6. Income tax

The Corporation's 1999 income tax relates solely to the large corporations tax. The Corporation's expected income tax rate is the net federal statutory rate (including surtax) of 39.12% less the manufacturing and processing deduction of 7.0%. The 1999 and 1998 effective tax rates are zero, exclusive of the large corporations taxes, due to the utilization of previously unrecognized losses and the utilization of differences between the tax and accounting values of assets at the date the Corporation became subject to income tax. The Corporation has differences between the tax and accounting values of the assets during the year in the amount of approximately $0.1 million (1998- $22.4 million) the benefit of which have not been recognized in the accounts. The Corporation is not subject to provincial income taxes.

7. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada owned entities. The Corporation enters into transactions with these entities in the normal course of business, under the same terms and conditions that apply to unrelated parties. Transactions with the Department of Finance related to the production and delivery of Canadian circulation coins are generally carried out on a cost plus basis.

8. Financial instruments

The Corporation uses financial instruments such as forward contracts and options to reduce the risk of loss due to adverse movements in foreign exchange and metal prices. Precious metal options worth $5 million (1998 - $10 million) were outstanding at the end of the year to offset the exposure in options issued by the Corporation for guaranteed value coins. These options expired in January 2000. There were no foreign exchange forward contracts outstanding at the end of the year (1998 - $10 million). Gains or losses on these financial instruments are recognized in earnings over the period when the hedged items are recognized in earnings. In accordance with the Corporation's investment policy, all counterparties for investments and other financial instruments are rated R-1 low or better by the Dominion Bond Rating Service or AA or better by Moody's Investors Service. As at December 31, 1999 the Mint had invested $14,683,000 in short-term investments (1998 - $14,402,000). The carrying amounts of each investment approximate fair values because of their short-term maturity.

9. Commitments

In order to facilitate the production of precious metal coins and manage the risks associated with changes in metal prices, the Mint leases, on an ongoing basis, precious metals and pays lease charges based on market value. The metal under these contractual arrangements is not reflected in the Mint's statements. As at December 31, 1999, 207,889 ounces of gold, 1,165,919 ounces of silver and 1,730 ounces of platinum were leased under these contracts (1998 - 148,588 ounces of gold, 1,190,684 ounces of silver and 7,590 ounces of platinum).

Standards

Council

of Canada

F7

Report of Management's Responsibility

The Honourable John Manley, P.C., M.P.

Minister of Industry

Mr. Minister,

The accompanying financial statements and all information in the Annual Report are the responsibility of the Council and its officers. The financial statements were prepared by management in conformity with generally accepted accounting principles appropriate to Council's operations. The non-financial information provided in the Annual Report has been selected on the basis of its relevance to Council's objectives.

Council maintains a system of financial and management controls and procedures designed to provide reasonable assurance that the transactions undertaken by the Council are appropriately authorized, that assets are safeguarded and that financial records are properly maintained to provide reliable financial statements. These controls and procedures are also designed to provide reasonable assurance that transactions are in accordance with the Council's objectives and within its mandate as stated in the *Standards Council of Canada Act*.

The Auditor General annually provides an independent, objective review of the financial records to determine if the financial statements report fairly the operating results and financial position of the Council in accordance with generally accepted accounting principles.

Council, through its Audit Committee, is responsible for reviewing management's financial and reporting practices in order to satisfy itself that these responsibilities are properly discharged by management. The Audit Committee, comprised solely of Council members, meets with management and the Auditor General to review the annual financial statements and reports on them to the Council.

Linda A. Lusby

Linda A. Lusby
Chair, Standards Council of Canada

May 5, 2000

Auditor's Report

To the Minister of Industry

I have audited the balance sheet of the Standards Council of Canada as at March 31, 2000 and the statements of operations and equity of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Council's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Council as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Council that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Standards Council of Canada Act* and the by-laws of the Council.

R. Flageole

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 5, 2000

BALANCE SHEET

	As at March 31	
	2000	1999
ASSETS		
Current		
Cash	$ 719,673	$ 569,941
Accounts receivable:		
Federal government departments and agencies	1,036,173	573,597
Other	1,071,647	1,276,385
Parliamentary appropriation receivable	47,000	54,000
Prepaid expenses	327,259	359,567
	3,201,752	2,833,490
Capital assets (Note 3)	613,165	828,756
	$ 3,814,917	$ 3,662,246
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 916,439	$ 649,543
Accrued employee entitlements	74,605	96,340
Deferred accreditation fees	573,085	467,596
	1,564,129	1,213,479
Long term		
Deferred revenue related to capital assets (Note 4)	314,405	529,026
Deferred government funding (Note 5)	298,760	299,730
	2,177,294	2,042,235
EQUITY OF CANADA		
Equity of Canada	1,637,623	1,620,011
	$ 3,814,917	$ 3,662,246

The accompanying notes form an integral part of these financial statements.

Approved by the Council:

Linda A. Lusby

The Chair

Executive Director

STATEMENT OF OPERATIONS AND EQUITY OF CANADA

	For the year ended March 31	
	2000	1999
Revenue		
Accreditation fees	$ 2,751,778	$ 2,337,497
Standards Initiatives Program funding	1,449,335	635,902
Royalties from sales of standards (Note 7)	530,107	533,060
WTO/NAFTA Enquiry Point	304,027	296,864
Other	121,956	107,319
	5,157,203	3,910,642
Expenses		
Salaries and employee benefits	3,737,445	3,949,943
Professional and special services	1,843,372	954,148
Travel	1,380,879	839,781
Memberships in international organizations	1,062,170	1,203,341
Office accommodation	828,911	764,491
Publications and printing	457,278	313,284
Amortization of capital assets	412,667	360,460
Telecommunications and postage	191,071	243,873
Meetings	135,108	74,962
Office supplies	101,945	80,466
Public relations	87,630	83,711
Rental of office equipment	48,111	50,675
Other	183,974	141,482
	10,470,561	9,060,617
Net loss before government funding	(5,313,358)	(5,149,975)
Government funding		
Parliamentary appropriation for operating expenses	5,132,924	4,938,161
Amortization of deferred government funding	198,046	169,073
	5,330,970	5,107,234
Net Income (Loss)	17,612	(42,741)
Equity of Canada at the beginning of the year	1,620,011	1,662,752
Equity of Canada at the end of the year	$ 1,637,623	$ 1,620,011

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	For the year ended March 31 2000	1999
Operating activities		
Net Income (Loss)	$ 17,612	$ (42,741)
Adjustment for non-cash items		
Amortization of capital assets	412,667	360,460
Amortization of deferred revenue related to capital assets	(214,621)	(191,387)
Amortization of deferred government funding	(198,046)	(169,073)
	17,612	(42,741)
Changes in current liabilities and current assets other than cash	132,120	(146,971)
Cash flows from operating activities	149,732	(189,712)
Investing activities		
Additions to capital assets	(197,076)	(236,832)
Financing activities		
Funding for acquisition of capital assets		
Parliamentary appropriation	197,076	65,839
Standards Initiatives Program	—	170,993
	197,076	236,832
Increase (decrease) in cash during the year	149,732	(189,712)
Cash at the beginning of the year	569,941	759,653
Cash at the end of the year	$ 719,673	$ 569,941

The accompanying notes form an integral part of these financial statements.

Notes to Financial Statements, March 31, 2000

1. AUTHORITY, OBJECTS, AND PROGRAMS

The Standards Council of Canada was created by Parliament as a corporation under the *Standards Council of Canada Act* in 1970 (revised, 1996) to be the national coordinating body for voluntary standardization. The Council is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act.*

The mandate of the Council is to promote voluntary standardization in Canada, where standardization is not expressly provided for by law, in order to advance the national economy, support sustainable development, benefit the health, safety and welfare of workers and the public, assist and protect consumers, facilitate domestic and international trade, and further international co-operation in relation to standardization.

In carrying out its mandate, the Standards Council performs the following activities:

- Accrediting organizations engaged in standards development and conformity assessment;
- representing Canada's interests regionally and internationally through membership in the International Organization for Standardization (ISO), the International Electrotechnical Commission (IEC), the Pacific Area Standards Congress, the Pan American Standards Commission, the International Laboratory Accreditation Cooperation, the Pacific Accreditation Cooperation, the Inter-American Accreditation Cooperation and the International Accreditation Forum;
- overseeing and coordinating Canada's participation in international standardization work;
- approving National Standards of Canada;
- providing advice and assistance to the Government of Canada in the negotiation of standards-related aspects of international trade and mutual recognition agreements;
- working with international and foreign standards bodies to develop standardization agreements that facilitate trade;
- fostering and promoting an understanding of the benefits and usage of standards and conformity assessment;
- collecting and distributing information on standards activities; and
- operating Canada's North American Free Trade Agreement and World Trade Organization enquiry points on behalf of the federal government.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Capital assets

Capital assets are recorded at cost and amortized on a straight-line basis over the estimated useful life of the assets as follows:

Furniture	5 years
Equipment	4 years
Leasehold improvements	term of the lease

(b) Accrued employee entitlements

Accrued employee entitlements include salaries, vacation pay, and other benefits.

(c) Revenues

Revenues from royalties from sales of standards, accreditation fees, and Standards Initiatives Program funding are recorded on an accrual basis in the year in which they are earned.

Recoveries of expenses in respect of an agreement for the operation of the World Trade Organization/North American Free Trade Agreement (WTO/NAFTA) Enquiry Point are recognized as revenue at the time the related expenses are incurred.

(d) Parliamentary appropriations

The Government of Canada provides funding to the Council. The portion of the parliamentary appropriation used to purchas depreciable capital assets is recorded as deferred government funding and amortized on the same basis and over the same periods as the related capital assets. The portion of the appropriation related to operations is recorded in the statement of operations in the year for which it was approved.

(e) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Council's contributions to the plan are limited to matching the employee's contributions for current service. These contributions are expensed during the year in which services are rendered and represent the total pension obligations of the Council.

3. CAPITAL ASSETS

	2000			1999
	Cost	Accumulated amortization	Net book value	Net book value
Furniture	$ 262,663	$ 259,516	$ 3,147	$ 5,606
Equipment	2,263,251	1,659,943	603,308	756,791
Leasehold improvements	160,910	154,200	6,710	66,359
	$ 2,686,824	$ 2,073,659	$613,165	$ 828,756

4. DEFERRED REVENUE RELATED TO CAPITAL ASSETS

For the period 1996-2000, the Council was awarded various contracts under the Industry Canada Standards Initiatives Program. Some of the contracts required the acquisition of capital assets for the delivery of services over an estimated period of four years. Amounts received pursuant to these contracts have been recorded as deferred revenue and are amortized to income on the same basis as the related capital assets.

Changes in the deferred revenue related to capital assets balance for the year are as follows:

	2000	1999
Balance at beginning of year	$ 529,026	$ 549,420
Add amounts received to acquire capital assets	—	170,993
Less amounts amortized to revenue	214,621	191,387
Balance at end of year	$ 314,405	$ 529,026

5. DEFERRED GOVERNMENT FUNDING

Deferred government funding represents the unamortized portion of parliamentary appropriations used to purchase depreciable capital assets.

Changes in the deferred government funding balance are as follows:

	2000	1999
Balance at beginning of year	$ 299,730	$ 402,964
Add appropriations used to acquire depreciable capital assets	197,076	65,839
Less amortization	198,046	169,073
Balance at end of year	$ 298,760	$ 299,730

6. FINANCIAL INSTRUMENTS

Accounts receivable and accounts payable are incurred in the normal course of business. All are due on demand and non-interest bearing. The carrying amounts of each approximate fair values because of their short maturity. There are no concentrations of accounts receivable with any one customer and, accordingly, no significant credit risk exists. At March 31, 2000, the Council had entered into foreign exchange contracts to purchase, on September 25, 2000, 482,240 Swiss Francs to pay the second half of its year 2000 membership dues to ISO and IEC. The prevailing rate of exchange in effect at the time of this transaction was $.926.

7. ROYALTIES FROM SALES OF STANDARDS

As of April 1, 1998 the Council has outsourced the operation of the Standards Sales Service to an independent agent, for a five-year renewable term. The agreement requires the payment of royalties to the Council based on a revenue sharing of net sales, with an annual guaranteed minimum payment.

8. LEASE COMMITMENT

The Council has entered into an agreement to lease office space for a fifteen-year term commencing in July 2000. The future minimum annual rentals under this agreement, exclusive of operating expense and property tax, are as follows:

Year 1	$198,991
Years 2-5	$280,929
Years 6-10	$299,975
Years 11-15	$319,021

9. RELATED PARTY TRANSACTIONS

In addition to those related party transactions disclosed elsewhere in these financial statements, the Council is related in terms of common ownership to all Government of Canada created departments, agencies, and Crown corporations. The Council enters into transactions with these entities in the normal course of business.

VIA Rail

Canada Inc.

MANAGEMENT REPORT

Year ended December 31, 1999

Management of the Corporation is responsible for the preparation and integrity of the financial statements contained in the Annual Report. These statements have been prepared in accordance with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgement. Financial information used elsewhere in the Annual Report is consistent with that in the financial statements. Management considers that the statements present fairly the financial position of the Corporation, the results of its operations and its cash flows.

To fulfill its responsibility, the Corporation maintains systems of internal accounting controls, policies and procedures to ensure the reliability of financial information and the safeguarding of assets. The internal control systems are subject to periodic reviews by Samson Bélair/Deloitte & Touche, general partnership, as internal auditors. The external auditors, the Auditor General of Canada and Raymond Chabot Grant Thornton, general partnership, have audited the Corporation's financial statements and their report indicates the scope of their audit and their opinion on the financial statements.

The Audit Committee of the Board of Directors, consisting solely of outside Directors, meets periodically with the internal and external auditors and with management, to review the scope of their audits and to assess reports on audit work performed. The financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

Rod Morrison

ROD MORRISON
President and
Chief Executive Officer

J.R. Paquette

J.R. PAQUETTE
Vice-President,
Planning and Finance,
and Treasurer

Montréal, Canada
February 9, 2000

AUDITORS' REPORT

TO THE MINISTER OF TRANSPORT

We have audited the balance sheet of VIA Rail Canada Inc. as at December 31, 1999 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and the regulations, the *Canada Business Corporations Act* and the articles and the by-laws of the Corporation.

Raymond Chabot Grant Thornton

RAYMOND CHABOT GRANT THORNTON
General partnership
Chartered Accountants

Montréal, Canada
February 9, 2000

L. DENIS DESAUTELS, FCA
Auditor General of Canada

Ottawa, Canada
February 9, 2000

FINANCIAL STATEMENTS

As at December 31

BALANCE SHEET
(in thousands)

	Notes	1999	1998
Current assets			
Cash and term deposits		$ 3,846	$ 12,733
Accounts receivable, trade		11,262	7,668
Accounts receivable, other		15,682	3,645
Receivable from the Government of Canada		–	23,678
Temporary investments	6	50,039	33,563
Materials		16,535	16,111
		97,364	97,398
Long-term assets			
Properties	4	487,823	520,255
Asset renewal fund	5 and 6	28,260	9,682
		516,083	529,937
		$ 613,447	$ 627,335
Current liabilities			
Accounts payable and accrued liabilities		$ 86,965	$ 79,217
Deferred revenue		5,037	4,805
		92,002	84,022
Long-term liabilities			
Deferred pension	8	41,697	40,072
Network restructuring and reorganization charges	9	14,408	16,029
Other		5,539	5,989
		61,644	62,090
Deferred capital funding	10	487,107	499,211
Shareholder's deficiency			
Share capital	11	9,300	9,300
Contributed surplus	12	4,345	3,812
Deficit		(40,951)	(31,100)
		(27,306)	(17,988)
		$ 613,447	$ 627,335

See accompanying notes to financial statements

Signed on behalf of the Board,

ANTHONY FRIEND, Q.C.
Director and Chairman of the Audit Committee

MARC LEFRANÇOIS
Director and Chairman of the Board

FINANCIAL STATEMENTS

Year ended December 31

STATEMENT OF OPERATIONS AND DEFICIT
(in thousands)

	Notes	1999	1998
Revenue			
Passenger		$ 202,096	$ 185,861
Other		18,527	14,297
		220,623	200,158
Expenses			
Customer services		223,815	228,020
Equipment maintenance		77,459	75,840
Marketing and sales		25,909	28,928
Support services		38,643	35,196
General and administrative		21,812	16,101
Pension	8	1,625	43,244
Amortization		41,951	39,683
Reorganization charges		9,543	(5,538)
		440,757	461,474
Net operating loss before funding from the Government of Canada		220,134	261,316
Operating funding from the Government of Canada		170,000	178,413
Amortization of deferred capital funding		42,071	41,461
Net results of operations before taxes		(8,063)	(41,442)
Income and federal large corporation taxes		1,788	(1,165)
Net results of operations for the year		(9,851)	(40,277)
Retained earnings (deficit), beginning of year		(31,100)	9,177
Deficit, end of year		$ (40,951)	$ (31,100)

See accompanying notes to financial statements

FINANCIAL STATEMENTS

Year ended December 31

STATEMENT OF CASH FLOWS
(in thousands)

	1999	1998
Operating activities		
Net results of operations for the year	$ (9,851)	$ (40,277)
Non-cash charges (credits) to operations:		
Amortization of properties	41,100	40,988
Losses (gains) on write-off, retirement and disposal of properties	1,199	(952)
Amortization of investment tax credits	(348)	(353)
Amortization of deferred capital funding	(42,071)	(41,461)
Changes in non-cash working capital	18,727	22,802
Change in deferred pension	1,625	43,245
Change in network restructuring and reorganization charges	(1,621)	(13,059)
Change in other long-term liabilities	(102)	(832)
	8,658	10,101
Financing activities		
Capital funding from the Government of Canada	30,500	-
Receivable from the Government of Canada	-	2,944
	30,500	2,944
Investment activities		
Change in asset renewal fund	(18,578)	27,831
Change in temporary investments	(16,476)	(33,563)
Acquisition of properties	(10,910)	(18,332)
Proceeds from sale of properties	1,043	2,525
Change in accounts payable and accrued liabilities related to properties	(3,124)	(250)
	(48,045)	(21,789)
Cash and term deposits		
Decrease during the year	(8,887)	(8,744)
Balance, beginning of year	12,733	21,477
Balance, end of year	$ 3,846	$ 12,733
Represented by:		
Cash	$ (583)	$ 1,174
Term deposits, 5.06%, maturing in January, 2000 (1998: 5.1%)	4,429	11,559
	$ 3,846	$ 12,733

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

As at December 31, 1999

1. AUTHORITY AND OBJECTIVES

VIA Rail Canada Inc. is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. It was incorporated in 1977, under the *Canada Business Corporations Act*. The Corporation's vision is to be the best passenger transportation company in Canada with a mission to provide high-quality, low-cost passenger service. The Corporation uses the roadway infrastructure of other railway companies and relies on them to control train operations.

The Corporation is not an agent of Her Majesty and is subject to the *Income Tax Act* (Canada) and those of certain provinces.

2. ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with generally accepted accounting principles. The significant accounting policies followed by the Corporation are summarized as follows:

a) Funding from the Government of Canada

Operating funding, which pertains to services, activities and other undertakings of the Corporation for the management and operation of railway passenger services in Canada, is recorded in the Statement of operations and deficit. The amounts are determined on the basis of operating costs less commercial revenues excluding non-cash transactions relating to properties, certain network restructuring and reorganization charges, and are based on the operating budget approved by the Government of Canada for each year.

Funding for depreciable properties is recorded on an accrual basis as deferred capital funding on the Balance sheet and amortized on the same basis and over the same periods as the related capital assets. Upon disposition of the funded depreciable properties, the Corporation recognizes into income all remaining deferred capital funding related to these properties. Funding for non-depreciable capital assets is recorded as contributed surplus.

b) Materials

Materials are valued at weighted average cost.

c) Properties

Properties acquired from Canadian National Railway and Canadian Pacific Limited at the start of operations in 1978 were recorded at the net transfer values while subsequent additions, including those acquired under capital leases, are recorded at cost.

The costs of refurbishing and rebuilding rolling stock and costs associated with other property upgrading are capitalized if they are incurred to improve the service value or extend the useful lives of the properties concerned; otherwise, costs are expensed as incurred.

Retired assets are written down to their net realizable value.

d) Amortization of properties

Amortization of properties is calculated on a straight-line basis at rates sufficient to write off the cost of properties, less their residual value, over their estimated useful lives, as follows:

Rolling stock	12 to 29 years
Maintenance buildings	25 years
Stations and Facilities	20 years
Infrastructure improvements	5 to 38 years
Leasehold improvements	5 to 20 years
Machinery and Equipment	4 to 15 years
Information systems	3 to 7 years
Other assets	3 to 10 years

No amortization is provided for projects in progress and retired assets.

e) Leases

Properties recorded under capital leases are amortized on a straight-line basis over 20 years, which is representative of their useful lives.

Rental payments under operating leases are expensed as incurred.

f) Deferred credits

Investment tax credits are amortized over the estimated useful lives of the related properties. The amortization of deferred investment tax credits is recorded as a reduction of the amortization of properties. These credits are included in other long-term liabilities

g) Pension plans

The Corporation has defined benefit pension plans, based on retirement age, compensation and length of service, covering all its permanent employees.

The cost to the Corporation is determined by actuarial valuations which allocate to each year, the accrued portion of the benefits based on projections of employees' compensation levels to the time of their retirement, prorated on employees' years of service.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 1999

Pension expense (Note 8) includes the cost of benefits attributable to services rendered during the current year, the amortization of past service costs, the amortization of experience gains and losses as well as the amortization of plan amendments. Amortization is calculated on a straight-line basis over the expected average remaining service lives of the active employee groups.

The difference between the accumulated pension expense and the employer's contributions to the pension funds (Deferred pension) is reflected in the Balance sheet as a long-term liability.

h) Employee termination and special benefits

Employee termination and special benefits provided for under labour agreements and special programmes relate to the restructuring and reorganization of the operations. These benefits are recognized when a decision has been approved by management and an estimate of future costs can be reasonably calculated.

Management recognizes changes in the liability from the original estimates based on the results of actual experiences.

i) VIA Préférence program

The incremental costs of providing travel awards under the Corporation's "VIA Préférence" frequent traveller reward program are accrued as the entitlements to such awards are earned and are included in accounts payable and accrued liabilities. The revenues from the sale of point credits to participating partners are recorded as revenue in the year in which the credits are sold.

j) Financial instruments

The estimated fair value of financial instruments, except for the asset renewal fund and temporary investments, approximates their carrying value due to their current nature.

The temporary investments are carried at the lower of cost and market.

The asset renewal fund is carried at cost.

k) Income taxes

The Corporation follows the future income tax method of accounting for income taxes.

l) Measurement uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Network restructuring and reorganization charges, amortization of properties, pension charges and contingencies are the most significant items where estimates are used. Actual results could differ from those estimates.

3. RECONCILIATION OF NET RESULTS OF OPERATIONS TO GOVERNMENT FUNDING BASIS

The Corporation receives its funding from the Government of Canada based primarily on cash flow requirements. Items recognized in the Statement of operations and deficit in one year may be funded by the Government of Canada in different years. Accordingly, the Corporation has different net results of operations for the year on a government funding basis than on a generally accepted accounting principles basis. These differences are outlined below:

(in millions of dollars)

	1999	1998
Net results of operations for the year	(9.8)	(40.3)
Items not requiring (not providing) operating funds:		
Amortization and gains and losses on properties	42.3	40.0
Amortization of deferred capital funding	(42.1)	(41.4)
Reorganization charges to be funded in subsequent years	6.4	(8.8)
Payment of prior years' reorganization charges	(4.4)	(8.0)
Pension	1.6	43.3
Operating funding deficit for the year (see note 5)	**(6.0)**	**(15.2)**

NOTES TO FINANCIAL STATEMENTS

As at December 31, 1999

4. PROPERTIES

(in millions of dollars)

	1999			1998		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land	4.3	–	4.3	3.8	–	3.8
Rolling stock	510.4	267.6	242.8	512.9	246.8	266.1
Maintenance buildings	159.6	84.1	75.5	159.5	79.9	79.6
Stations and Facilities	34.0	14.2	19.8	35.1	13.1	22.0
Infrastructure improvements	92.9	31.7	61.2	92.9	29.2	63.7
Leasehold improvements	88.3	59.0	29.3	89.4	55.5	33.9
Machinery and Equipment	29.0	21.5	7.5	28.2	19.9	8.3
Information systems	59.2	48.5	10.7	50.7	42.1	8.6
Other assets	18.8	18.6	0.2	20.9	20.4	0.5
	996.5	**545.2**	**451.3**	**993.4**	**506.9**	**486.5**
Projects in progress			15.0			12.1
Retired assets (at net realizable value)			21.5			21.6
			487.8			**520.2**

On December 31, 1999 the gross value of assets under capital leases included above was $3.2 million (1998: $3.5 million) and related accumulated amortization thereon amounted to $2.2 million (1998: $2.3 million).

Projects in progress primarily consist of equipment and information systems.

5. ASSET RENEWAL FUND

The Corporation has been authorized by the Treasury Board of the Government of Canada to segregate proceeds from the sale or lease of surplus assets as well as the operating savings resulting from the rationalization of its maintenance activities, in a manner which ensures that these funds are retained for future capital projects.

During the year, the Corporation received $30.5 million from the Government of Canada as a replenishment of the Asset renewal fund. After Treasury Board approval, the Corporation drew down from the Asset renewal fund $5.6 million (1998: $15.2 million) for operating expenditures and $10.9 million (1998: $18.3 million) for capital expenditures.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 1999

6. TEMPORARY INVESTMENTS AND ASSET RENEWAL FUND

The investment decisions for the Temporary investments and Asset renewal fund are consistent with the *Minister of Finance of Canada Financial Risk Management Guidelines for Crown Corporations.*

The Temporary investments and Asset renewal fund include the following investment instruments:

(in millions of dollars)

	1999		1998	
	Cost	Market value	Cost	Market value
Canadian bonds and discount notes	30.3	30.6	20.8	22.5
Pooled equity unit trust	38.1	46.8	22.3	22.7
Cash and short-term investments	9.9	9.9	0.1	0.1
Balance, end of year	**78.3**	**87.3**	**43.2**	**45.3**
Represented by:				
Temporary investments	50.0	55.9	33.5	35.2
Asset renewal fund	28.3	31.4	9.7	10.1
	78.3	**87.3**	**43.2**	**45.3**

Canadian bonds and discount notes bear interest at rates varying between 4.00% and 11.25% (1998: 4.25% and 11.25%) and mature between January 2000 and December 2031.

The fair value of Canadian bonds, discount notes and pooled equity unit trust is equivalent to the market value based on the current bid price at the balance sheet date.

The Corporation is not encountering any significant market, cashflow or interest rate risk related to these investments.

7. INCOME AND FEDERAL LARGE CORPORATION TAXES

The Corporation has net timing differences of $75.7 million (1998: $70.5 million) resulting from items not deducted for income tax purposes, the benefit of which has not yet been recognized in the financial statements. These timing differences generally result from the accrual of pension costs and network restructuring and reorganization charges. The Corporation has unused tax losses in the amount of $9.7 million which will expire in the year 2005.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 1999

8. PENSION PLANS

The latest actuarial valuations of the pension plans were carried out as at December 31, 1998 by external actuaries who are members of the Canadian Institute of Actuaries. Based on these valuations and actuarial projections for 1999, the accumulated plan benefits as at December 31, 1999 are $981.8 million (1998: $961.2 million). The net assets available to provide for these benefits at actuarial adjusted market values as at that date amount to $1,123.8 million (1998: $1,027.5 million).

(in millions of dollars)

	1999	1998
Pension Expense:		
Current service cost	9.0	9.0
Past service amortization	24.2	24.0
Amortization of experience gains	(34.5)	(30.5)
Plan amendment for early retirement program	–	39.4
Interest charges on accrued liabilities	2.9	1.3
	1.6	43.2
Deferred pension:		
Balance, beginning of year	40.1	(3.1)
Pension expense	1.6	43.2
Balance, end of year	41.7	40.1

NOTES TO FINANCIAL STATEMENTS

As at December 31, 1999

9. NETWORK RESTRUCTURING AND REORGANIZATION CHARGES

The Corporation has incurred expenses related to approved plans for the restructuring of its transportation network on October 4, 1989 as well as subsequent reorganizations.

The present value of the projected cost is recorded as a liability. As at December 31, 1999 a provision of $21.0 million (1998: $25.2 million), of which $14.4 million (1998: $16.0 million) is reflected as a long-term liability, has been recorded to provide for the on-going costs of severance payments and employment security benefits governed by labour agreements, special programmes and arbitration decisions which may extend over several years.

10. DEFERRED CAPITAL FUNDING

(in millions of dollars)

	1999	1998
Balance, beginning of year	499.2	540.6
Asset Renewal Fund replenishment	30.5	-
Government Funding for depreciable capital assets	-	-
Government Funding for land investment transferred to Contributed Surplus	(0.5)	-
Amortization of deferred capital funding	(42.1)	(41.4)
Balance, end of year	**487.1**	**499.2**

An amount of $2.2 million of the asset renewal fund replenishment of $30.5 million was used to finance capital assets in 1999. The remaining balance of $28.3 million is not being amortized.

11. SHARE CAPITAL

The authorized share capital of the Corporation is comprised of an unlimited number of common shares of no par value. As at December 31, 1999 and 1998, 93,000 shares at $100 per share are issued and fully paid.

12. CONTRIBUTED SURPLUS

Contributed Surplus represents the Capital Funding from the Government of Canada of $4.3 million (1998: $3.8 million) for investments in land.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 1999

13. COMMITMENTS

a) The future minimum payments relating to operating leases mainly for real estate and computer equipment are as follows:

(in millions of dollars)	
2000	12.8
2001	11.8
2002	7.7
2003	7.2
2004	5.8
Subsequent years up to 2047	23.9
	69.2

b) Effective January 1, 1989 as well as in 1998 and 1999, the Corporation entered into a train service agreement and other agreements for the use of tracks and control of train operations. These agreements expire up to December 31, 2008.

c) The Corporation has issued letters of credit totalling approximately $9.7 million (1998: $8.2 million) to various provincial government workmen's compensation boards as security for future payment streams.

14. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created departments and agencies, and enters into transactions with these entities in the normal course of business on trade terms applicable to all individuals and enterprises and are recorded at exchange value.

15. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.